Alliance Boots GmbH
Consolidated Financial Statements

for the year ended 31 March 2010

Contents

Statutory auditor's report

to the general members meeting of Alliance Boots GmbH

As statutory auditor, we have audited the accompanying Consolidated Financial Statements of Alliance Boots GmbH, which comprise the Group income statement, Group statement of comprehensive income, Group statement of financial position, Group statement of changes in equity, Group statement of cash flows and related notes for the year ended 31 March 2010.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error. The Directors are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements for the year ended 31 March 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRSs) and comply with Swiss law.

Reporting on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of Consolidated Financial Statements according to the instructions of the Directors.

We recommend that the Consolidated Financial Statements submitted to you be approved.

KPMG AG

John A. Morris **Licensed Audit Expert** **Auditor in Charge**	**Dr. Elisabeth Kruck** **Licensed Audit Expert**

Zug, Switzerland
13 May 2010

Group income statement

for the year ended 31 March 2010

	Notes	2010 £million	2009 £million
Revenue	4	**18,722**	17,195
Profit from operations before associates and joint ventures	4, 5, 6	**686**	640
Share of post tax earnings of associates and joint ventures	16	**99**	75
Impairment of investment in associate	6, 16	**-**	(15)
Profit from operations	4, 6, 7	**785**	700
Finance income	6, 9	**398**	365
Finance costs	10	**(708)**	(1,052)
Profit before tax		**475**	13
Tax	6, 11	**129**	88
Profit for the year		**604**	101
Attributable to:			
Equity shareholders of the Company		**608**	101
Minority interests		**(4)**	-
		604	101

All income and expense arose from continuing operations in the year.

Group statement of comprehensive income

for the year ended 31 March 2010

	Note	2010 £million	2009 £million
Profit for the year		**604**	101
Other comprehensive income for the year			
Net exchange differences on translation of non-Sterling denominated operations		**35**	97
Defined benefit schemes - net actuarial losses		**(694)**	(152)
Fair value losses on cash flow hedging instruments net of amounts recycled		**(1)**	-
Net movements on available-for-sale reserve		**30**	21
Share of post tax other comprehensive income of associates and joint ventures		**(10)**	-
		(640)	(34)
Tax on other comprehensive income for the year	11	**194**	45
		(446)	11
Total comprehensive income for the year		**158**	112
Attributable to:			
Equity shareholders of the Company		**163**	109
Minority interests		**(5)**	3
		158	112

Group statement of financial position

as at 31 March 2010

	Notes	2010 £million	2009 £million
Assets			
Non-current assets			
Goodwill	12	**4,649**	4,771
Other intangible assets	13	**5,456**	5,533
Property, plant and equipment	15	**2,091**	2,147
Investments in associates and joint ventures	16	**1,143**	1,079
Available-for-sale investments	17	**80**	39
Other receivables	19	**153**	66
Deferred tax assets	23	**227**	102
Retirement benefit assets	35	**-**	216
Derivative financial instruments	25	**10**	-
		13,809	13,953
Current assets			
Inventories	18	**1,623**	1,542
Trade and other receivables	19	**2,610**	2,649
Cash and cash equivalents	20	**343**	473
Restricted cash	21	**349**	343
Derivative financial instruments	25	**1**	4
Assets classified as held for sale	22	**9**	11
		4,935	5,022
Total assets		**18,744**	18,975
Liabilities			
Current liabilities			
Borrowings	25	**(556)**	(930)
Trade and other payables	24	**(3,377)**	(3,213)
Current tax liabilities		**(49)**	(14)
Provisions	29	**(37)**	(88)
		(4,019)	(4,245)
Net current assets		**916**	777
Non-current liabilities			
Borrowings	25	**(8,322)**	(8,674)
Other payables	24	**(92)**	(21)
Deferred tax liabilities	23	**(1,251)**	(1,498)
Retirement benefit obligations	35	**(462)**	(28)
Provisions	29	**(44)**	(35)
Derivative financial instruments	25	**(214)**	(250)
		(10,385)	(10,506)
Net assets		**4,340**	4,224
Equity			
Share capital	30	**1,065**	1,065
Share premium		**2,795**	2,795
Retained earnings		**239**	131
Other reserves	31	**212**	191
Shareholders' equity		**4,311**	4,182
Minority interests		**29**	42
Total equity		**4,340**	4,224

Group statement of changes in equity

2010	Shareholders' equity Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Minority interests £million	Total equity £million
At 1 April 2009	**1,065**	**2,795**	**131**	**191**	**4,182**	**42**	**4,224**
Profit for the year	**-**	**-**	**608**	**-**	**608**	**(4)**	**604**
Other comprehensive income for the year							
Net exchange differences on translation of non-Sterling denominated operations	**-**	**-**	**-**	**36**	**36**	**(1)**	**35**
Defined benefit schemes - net actuarial losses	**-**	**-**	**(694)**	**-**	**(694)**	**-**	**(694)**
Fair value losses on cash flow hedging instruments net of amounts recycled	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
Net movements on available-for-sale reserve	**-**	**-**	**-**	**30**	**30**	**-**	**30**
Share of post tax other comprehensive income of associates and joint ventures	**-**	**-**	**-**	**(10)**	**(10)**	**-**	**(10)**
Tax on other comprehensive income for the year	**-**	**-**	**194**	**-**	**194**	**-**	**194**
	-	**-**	**(500)**	**55**	**(445)**	**(1)**	**(446)**
Total comprehensive income for the year	**-**	**-**	**108**	**55**	**163**	**(5)**	**158**
Transactions with owners							
Minority interests in businesses acquired	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Future dividend obligations to minority interests	**-**	**-**	**-**	**(30)**	**(30)**	**(32)**	**(62)**
Transfer to special reserve	**-**	**-**	**-**	**(4)**	**(4)**	**4**	**-**
Purchase of minority interests	**-**	**-**	**-**	**-**	**-**	**(15)**	**(15)**
Contribution from minority interests	**-**	**-**	**-**	**-**	**-**	**3**	**3**
	-	**-**	**-**	**(34)**	**(34)**	**(8)**	**(42)**
At 31 March 2010	**1,065**	**2,795**	**239**	**212**	**4,311**	**29**	**4,340**

2009	Shareholders' equity Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million	Minority interests £million	Total equity £million
At 1 April 2008	1,005	2,795	137	76	4,013	35	4,048
Profit for the year	-	-	101	-	101	-	101
Other comprehensive income for the year:							
Net exchange differences on translation of non-Sterling denominated operations	-	-	-	94	94	3	97
Defined benefit schemes - net actuarial losses	-	-	(152)	-	(152)	-	(152)
Net movements on available-for-sale reserve	-	-	-	21	21	-	21
Tax on other comprehensive income for the year	-	-	45	-	45	-	45
	-	-	(107)	115	8	3	11
Total comprehensive income for the year	-	-	(6)	115	109	3	112
Transactions with owners:							
Issue of share capital	60	-	-	-	60	-	60
Minority interests in businesses acquired	-	-	-	-	-	4	4
	60	-	-	-	60	4	64
At 31 March 2009	1,065	2,795	131	191	4,182	42	4,224

Owners comprise equity shareholders of the Company and minority interests.

Group statement of cash flows

for the year ended 31 March 2010

	Note	2010 £million	2009 £million
Operating activities			
Profit from operations		785	700
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post tax earnings of associates and joint ventures		(99)	(75)
Depreciation and amortisation		359	345
Impairment of goodwill and investment in associate		121	40
Gain on disposal of property, plant and equipment		-	(2)
Gain on disposal of assets classified as held for sale		(2)	-
Increase in inventories		(73)	(13)
Increase in receivables		(40)	(100)
Increase in payables and provisions		143	202
Movement in retirement benefit assets and obligations		(64)	(52)
Cash generated from operations		1,130	1,045
Tax paid		(14)	(23)
Net cash from operating activities		1,116	1,022
Investing activities			
Acquisition of businesses		(11)	(138)
Cash and cash equivalents of businesses acquired net of overdrafts		-	25
Disposal of businesses		-	1
Purchase of property, plant and equipment, and intangible assets		(255)	(294)
Purchase of available-for-sale investments		(12)	(3)
Other loans and purchase of profit participating note		(39)	-
Disposal of property, plant and equipment, and intangible assets		14	22
Disposal of available-for-sale investments		2	-
Disposal of assets classified as held for sale		25	-
Dividends received from associates and joint ventures		39	34
Dividends received from available-for-sale investments		1	-
Interest received		49	49
Net cash used in investing activities		(187)	(304)
Financing activities			
Interest paid		(393)	(646)
Interest element of finance lease obligations		(2)	(4)
Proceeds from borrowings		39	125
Repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives		(666)	(342)
Fees associated with financing activities		(22)	(22)
Net cash and cash equivalents transferred (to)/from restricted cash		(5)	161
Issue of ordinary share capital		-	60
Repayment of capital element of finance lease obligations		(17)	(20)
Purchase of minority interests		(10)	-
Contribution from minority interests		3	-
Net cash used in financing activities		(1,073)	(688)
Net (decrease)/increase in cash and cash equivalents in the year		(144)	30
Cash and cash equivalents at 1 April		210	197
Currency translation differences		6	(17)
Cash and cash equivalents at 31 March	20	72	210

All cash flows arose from continuing operations in the year.

Notes to the Consolidated Financial Statements
for the year ended 31 March 2010

1. General information

Alliance Boots GmbH is a private company incorporated in Switzerland. The address of its registered office is Alliance Boots GmbH, Baarerstrasse 94, CH-6300 Zug, Switzerland. The principal activities of the Group are pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution in many major international markets.

2. Accounting policies

The principal accounting policies applied in the preparation of the Consolidated Financial Statements are set out below:

Basis of accounting
The Consolidated Financial Statements have been prepared in Sterling reflecting the denomination of the currency of the most significant proportion of the trade and cash flows of Alliance Boots GmbH (the "Company") and its subsidiaries and their interests in associates and joint ventures (together referred to as "the Group") and have been rounded to the nearest £1 million. The Consolidated Financial Statements have been prepared in accordance with the requirements of Swiss law and International Financial Reporting Standards (IFRSs), as they apply to the Consolidated Financial Statements for the year ended 31 March 2010. Had the Consolidated Financial Statements been prepared under IFRSs as adopted by the European Union, there would be no material changes to the information presented in these Consolidated Financial Statements.

The Consolidated Financial Statements have been prepared principally on the historical cost basis. Other applicable measurement bases applied in the preparation of the Consolidated Financial Statements are identified in the accounting policies below.

The preparation of Consolidated Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the Consolidated Financial Statements. The areas involving a higher degree of judgement, or areas where assumptions or estimates were significant to the Consolidated Financial Statements are disclosed in note 37.

Going concern
The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the Consolidated Financial Statements.

New, amended and revised Standards and Interpretations
The following Standards, and amendments and revisions to published Standards were effective for the year ended 31 March 2010, and had an impact on the Consolidated Financial Statements:

New IFRSs	
IFRS 8	Operating Segments
Amendments and revisions to IFRSs	
IFRS 7	Enhancing Disclosures about Fair Value and Liquidity risk
IAS 1	Presentation of Financial Statements

IFRS 8, which has been voluntarily adopted by the Group, requires that segments are reported on the same basis as the internal reporting information that is provided to the chief operating decision-makers. The segmental reporting accounting policy provides further information. The Standard is retrospectively effective, disclosure based and has no impact on the Group's retained earnings or net assets.

The amendment to IFRS 7 requires enhanced disclosures relating to fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a measurement hierarchy. The amendment is prospectively effective, disclosure based and has no impact on the Group's retained earnings or net assets.

The revision to IAS 1 requires that all owner changes in equity are presented in the Group statement of changes in equity and all non-owner changes in equity are presented in the statement of comprehensive income. The revised Standard is retrospectively effective and has no impact on the Group's retained earnings or net assets.

The following amendments and revisions to IFRSs which were effective for the year ended 31 March 2010 did not have any material impact on the Consolidated Financial Statements:

Amendments and revisions to IFRSs	
IFRS 2	Vesting Conditions and Cancellations
IAS 23	Borrowing Costs
IAS 32 & IAS 1	Puttable Financial Instruments and Obligations arising on Liquidation
IAS 39 & IFRS 7	Reclassification of Financial Instruments
IAS 39	Clarification regarding Assessment of Embedded Derivatives
various	Improvements to IFRS 2008 - minor amendments
New IFRICs	
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers

The following Standards, amendments to published Standards and Interpretations were available for early adoption, but have not yet been applied in the preparation of the Consolidated Financial Statements:

New IFRSs		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2013
Amendments and revisions to IFRSs		
IFRS 2	Group Cash-settled Share-based Payments	1 January 2010
IFRS 3 & IAS 27	Business Combinations	1 July 2009
IAS 24	Related Party Disclosures	1 January 2011
IAS 32	Classification of Rights Issues	1 February 2010
IAS 39	Eligible Hedged Items	1 July 2009
various	Improvements to IFRSs - minor amendments	various
New IFRICs		
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to IFRICs		
IFRIC 9	Embedded Derivatives	30 June 2009
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011

The Directors do not anticipate that the adoption of these new Standards and Interpretations, and amendments to published Standards and Interpretations will have a material impact on the Consolidated Financial Statements in the period of initial application with the exception of the revisions to IFRS 3, IAS 27 and IAS 24, and IFRIC 17, where it is not possible to estimate the impact in the period of initial application as this is dependent on uncertain future events, and IFRS 9, where classification and measurement amendments will be required to financial assets currently classified as available-for-sale.

Consolidation

The Consolidated Financial Statements as at and for the year ended 31 March 2010 comprise the Company and its subsidiaries and their interests in associates and joint ventures (together referred to as the "Group").

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from and to the date that control commences or ceases, as appropriate.

Transactions with minority interests are treated as transactions with parties that are external to the Group. When an equity interest is purchased from minority interests, the difference between the consideration paid and the relevant share of the carrying value of the net assets acquired is booked as goodwill and the underlying minority interests are derecognised.

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but without control, or joint control, of the financial and operating policies of the entity.

A joint venture is an entity over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity.

2. Accounting policies (continued)

Consolidation (continued)

Associates and joint ventures are accounted for using the equity method. Unrealised profits and losses recognised by the Group on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture concerned. Financial statements of some associates and joint ventures are prepared for different reporting periods from that of the Group. Adjustments are made for the effects of transactions and events that occur between the reporting date of an associate or joint venture and the reporting date of the Consolidated Financial Statements.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Currency

Currency transactions

Transactions denominated in currencies other than an entity's functional currency are translated into an entity's functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in currencies other than an entity's functional currency at the year end are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date of the transaction. Non-monetary items that are measured at fair value and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses are recognised in the income statement.

Non-Sterling denominated entities

The assets and liabilities of non-Sterling denominated entities, including goodwill and fair value adjustments arising on consolidation, are translated into Sterling at exchange rates ruling at the year end. The results and cash flows of non-Sterling denominated entities are translated into Sterling at the average exchange rate for the period, which approximates to the underlying actual rates.

Exchange differences arising from the translation of the results and net assets of non-Sterling denominated entities are recognised in the translation reserve.

When a non-Sterling denominated entity is sold, the related balance in the translation reserve is recognised in the income statement as part of the gain or loss on sale.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for making resource allocation decisions in the attainment of strategic objectives and assessing the performance of the operating segments, have been identified as the executive Directors.

The Group has two reportable segments, being the Health & Beauty Division and the Pharmaceutical Wholesale Division. The main activity of the Health & Beauty Division is pharmacy-led health and beauty retailing, and the main activity of the Pharmaceutical Wholesale Division is pharmaceutical wholesaling and distribution.

Revenue

Revenue shown on the face of the income statement is the amount derived from the sale of goods and services outside of the Group in the normal course of business and is measured at the fair value of consideration received or receivable net of trade discounts, value added tax and other sales-related taxes. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Revenue from services is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

The accounting policies for the major revenue categories by operating segment are:

Health & Beauty Division

Reimbursement of dispensing revenue and revenue derived from optical services is initially estimated because the actual reimbursement is often not known until after the month of sale.

Consideration received from retail and optical sales is recorded as revenue at the point of sale less appropriate adjustments for returns.

In respect of loyalty schemes (principally the Boots Advantage Card) as points are issued to customers the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when vouchers are redeemed.

Pharmaceutical Wholesale Division

Wholesale revenue is recognised upon despatch of goods.

When the Group acts in the capacity of an agent, or a logistics service provider, revenue is the service fees and is recognised upon performance of the services concerned.

Contract Manufacturing
Revenue is recognised upon despatch of goods.

Supplier rebates
Certain suppliers offer rebates when purchases made in a period meet or exceed a predetermined level. Rebates are only recognised when there is clear evidence of this type of binding arrangement with the supplier and the rebate receipt is both probable and can be reasonably estimated. The rebate is recognised as a reduction in the purchase price.

Exceptional items
Exceptional items are items classified by the Group as exceptional in nature. These are not regarded as forming part of the trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and to assess the trends in financial performance.

Finance income
Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, net exchange gains relating to financing items, expected returns on defined benefit scheme assets, net fair value gains on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, dividends received from investments and discounts on the repurchase of bank loans provided to the Group, which are accounted for as loan redemptions. Dividend income is recognised when the right to receive payment is established.

Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, financing fees, net exchange losses relating to financing, interest on defined benefit scheme liabilities, the interest expense component of finance lease payments, net fair value losses on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, fair value movements on cash flow hedge financing derivatives recycled from the cash flow hedge reserve and fair value movements on dividend obligations to minority interests.

Current/non-current classification
Current assets include assets held primarily for trading purposes, cash and cash equivalents, restricted cash and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Business combinations and goodwill
Business combinations are accounted for under IFRS 3 using the purchase method of accounting. The cost of acquisition is the consideration given in exchange for the identifiable net assets. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. The cost of acquisition also includes directly attributable costs. Where a share-for-share exchange transaction is accounted for as a business combination, the cost of acquisition is the fair value of the equity transferred.

The acquired net assets are initially recognised at fair value which is deemed cost in the Consolidated Financial Statements. Where the Group does not acquire 100% ownership of the acquired company, a minority interest is recorded as the minority's proportion of the fair value of the acquired net assets. Any adjustment to the fair values is recognised within twelve months of the acquisition date.

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any directly attributable costs over the fair value of the identifiable net assets acquired. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business and are recorded in the local currency of that business. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement. Goodwill is carried at cost less accumulated impairment losses. No amortisation is charged.

Intangible assets
Intangible assets are stated at cost or deemed cost less any impairment and accumulated amortisation. The principal categories of intangible assets are:

Pharmacy licences
Pharmacy licences, being the exclusive right to operate as a pharmacy, are capitalised where there is an asset that can be separated from other identifiable assets that together form a pharmacy business.

Brands
Brands consist of corporate and product brands acquired as part of business combinations that meet the criteria for separate recognition. Costs in relation to internally generated brands are not capitalised.

Customer relationships
Customer relationships consist of relationships with customers established through contracts, or non-contractual customer relationships that meet the criteria for separate recognition, that have been acquired in a business combination.

2. Accounting policies (continued)

Intangible assets (continued)

Other intangible assets

Other intangible assets comprise product licences which give the right to sell certain products in specific countries and clinical data used to review therapy effectiveness which are recognised separately as intangible assets when they are acquired.

Software

Software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalised once the project has reached the application development stage. The costs are amortised from when the asset is ready for use. Costs incurred during the preliminary project stage, maintenance and training costs, and research and development costs are expensed as incurred.

Amortisation

Where an intangible asset is considered to have a finite life, amortisation is charged to the income statement on a straight-line basis over the useful life from the date the asset is available for use. Pharmacy licences recognised as intangible assets do not expire and therefore are considered to have an indefinite life. Certain brands have been identified as having an indefinite life, based on their life and history along with current market strength and future development plans. Those assets considered to have an indefinite life are not amortised and are tested for impairment at each year end. The useful lives for those intangible assets with a finite life are:

- Brands - 10 to 20 years;
- Customer relationships - 4 to 20 years;
- Product licences - 5 to 15 years; and
- Software - 3 to 8 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

- Freehold land and assets in the course of construction - not depreciated;
- Freehold and long leasehold buildings - not more than 50 years;
- Short leasehold land and buildings - remaining period of lease;
- Plant and machinery - 3 to 10 years; and
- Fixtures, fittings, tools and equipment - 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Impairment of assets

The Group's assets are reviewed at each year end to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows - referred to as cash generating units.

For goodwill and other intangible assets that have an indefinite life and assets not yet available for use, the recoverable amount is estimated annually or more frequently when there is an indication that the asset is impaired.

Assets held for sale and discontinued operations

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than through continuing use. The asset or disposal group must be available for immediate sale and the sale must be highly probable and be expected to complete within one year of the year end. Where applicable, assets and disposal groups classified as held for sale are measured at the lower of fair value less costs to sell and carrying amount.

Impairment losses on initial classification as held for sale are included in the income statement. Gains reversing previous impairment losses or losses on subsequent remeasurements are also included in the income statement.

Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities with disposal groups being separated between assets held for sale and liabilities held for sale. No amortisation or depreciation is charged on assets, including those in disposal groups, classified as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria for classification as held for sale. Where applicable, discontinued operations are presented in the income statement as a separate line entitled 'Profit after tax from discontinued operations'.

Available-for-sale investments
The Group classifies its listed and unlisted investments as available-for-sale financial assets and measures them at fair value. Gains and losses arising from changes in fair values and exchange translation are recognised in equity until the investment is either disposed of or derecognised. When an investment is disposed of or derecognised, the related balances in the available-for-sale reserve is recognised in the income statement as part of the gain or loss on sale.

Trade receivables and other receivables
Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost, less allowances for impairment where appropriate. These are reviewed for impairment on an individual or collective basis, depending on the size of the receivable and the period for which it is overdue.

Inventories
Inventories are valued at the lower of cost and net realisable value. With the exception of retail inventory in the Health & Beauty Division, cost is determined using the first in, first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost of raw materials and packaging is their purchase price. The cost of work in progress and finished goods comprises the purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels. Retailing inventory is valued at retail prices and reduced by appropriate margins to take into account factors such as average cost, obsolescence, seasonality and damage.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and short term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Restricted cash
Restricted cash comprises deposits, the use of which is restricted for specific purposes and so is not available for the use of the Group in its day-to-day operations.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to currency translation and interest rate risks arising from operating, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value with movements taken to the income statement.

Derivative financial instruments are recognised initially at fair value, with movements on remeasurement recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedges
Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

If the hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period, or periods, during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period, or periods, during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

2. Accounting policies (continued)

Hedges (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the currency translation exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in non-Sterling denominated entities

On consolidation, the effective portion of the gain or loss on an instrument designated as a hedge of net investment in a non-Sterling denominated entity that is determined to be an effective hedge is recognised directly in the translation reserve. The ineffective portion is recognised immediately in the income statement.

When a non-Sterling denominated entity is sold, the cumulative currency gains or losses on the hedging instrument associated with that non-Sterling entity are removed from the translation reserve and recognised in the income statement as part of the gain or loss on sale.

Trade payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Future dividend obligations to minority interests

Future dividend obligations to minority interests are initially recognised, and subsequently remeasured at each reporting date, at fair value. Fair value movements are recorded within finance costs, and are attributed to minority interests.

The excess of the initial obligation, and subsequent fair value movements, over the equity interest of the minorities is recorded in a special reserve within equity.

Retirement benefits

The Group operates a number of retirement benefit schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances. Where a retirement benefits arrangement is unfunded, provision is made in the statement of financial position for the obligation.

Defined benefit schemes

A defined benefit scheme is a retirement benefit scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The Group's net obligation or asset in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the year end on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in profit from operations, finance costs include interest on defined benefit scheme liabilities and the expected return on defined benefit scheme assets is included in finance income. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise they are amortised on a straight-line basis over the average period until the benefits become vested. All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of other comprehensive income.

A curtailment gain resulting from a change to the membership composition of a defined benefit scheme is recognised in the income statement and as a reduction in the present value of a defined benefit scheme liability.

Defined contribution schemes

Obligations for contributions to defined contribution retirement benefit schemes are recognised as an expense in the income statement as they fall due.

Leases
Leases, for which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases, including outsourced assets held exclusively for the use of the Group. The cost of assets held under finance leases is included within property, plant and equipment and depreciation is provided in accordance with the policy for the class of asset concerned over the length of the lease. The corresponding obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement through finance costs to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations. Lease premiums paid in advance are treated as prepayments and are amortised over the period of the lease.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Predetermined rental increases included in the lease are recognised on a straight-line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

Lease income is recognised on a straight-line basis over the lease term.

Tax
Tax on the profit or loss for the period represents the sum of current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax
Current tax is the expected tax payable on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not ever taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the year end, and any adjustments to tax payable in respect of previous years.

Deferred tax
Deferred tax is provided in full using the statement of financial position liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. The following temporary differences are not provided for: those arising from the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from receipt of dividends from the Group's subsidiary and associate and joint venture interests are recognised at the same time as the payee recognises the liability to pay the related dividend except where the timing of the payment is not controlled by the Group, in which case a deferred tax liability is recognised in full against those distributable reserves.

Deferred tax assets and liabilities are offset in the statement of financial position when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions
Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects the risks specific to the liability.

Equity instruments
An equity instrument is any contract which evidences a residual interest in the net assets of an entity. A financial instrument is treated by the Group as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of shares, or is a derivative which will be settled only by the Group exchanging a fixed amount of cash or other financial assets, for a fixed number of its own equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of applicable tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

2. Accounting policies (continued)

Use of non-GAAP measures

The Directors believe that certain non-GAAP measures provide additional useful information to assist in understanding the performance of the Group. These measures, which are used for internal performance measurement, and are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. The key measures are:

EBITDA
Trading profit before underlying depreciation and amortisation.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments.

Net borrowings
Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs
Finance costs net of finance income.

Share of underlying post tax earnings of associates and joint ventures
Share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences on net finance costs and related tax.

Timing differences on net finance costs
IAS 39 timing differences and the unwind of the discount on obligations to minority interests.

Trading profit
Profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.

Underlying depreciation and amortisation
Depreciation and amortisation adjusted to exclude amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.

Underlying net finance costs
Net finance costs adjusted to exclude exceptional items and timing differences on net finance costs.

Underlying profit
Profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences on net finance costs and related tax.

Underlying tax charge/credit
Tax charge/credit adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences on net finance costs and exceptional tax.

3. Exchange rates

The principal exchange rates relative to Sterling used in the preparation of the Consolidated Financial Statements were:

	Average		Closing rate	
	2010	2009	**At 31 March 2010**	At 31 March 2009
Euro	**1.129**	1.205	**1.113**	1.075
Turkish Lira	**2.421**	2.394	**2.292**	2.389
Swiss Franc	**1.696**	1.884	**1.595**	1.634
Norwegian Krone	**9.641**	10.182	**8.956**	9.485
Russian Rouble	**49.016**	46.014	**44.166**	48.277

4. Segmental information

The Group's externally reportable operating segments reflect the internal reporting structure of the Group, which is the basis on which resource allocation decisions are made by the executive Directors in the attainment of strategic objectives. Inter-segment pricing is determined on an arm's length basis.

The Group comprises the following operating segments:

Health & Beauty Division
Comprises all of the pharmacy-led health and beauty retail businesses across the Group. These businesses are located in the UK, Norway, Republic of Ireland, The Netherlands, Thailand, Italy and Russia.

Pharmaceutical Wholesale Division
Comprises all of the pharmaceutical wholesaling and distribution businesses across the Group. These businesses are located in France, UK, Spain, Italy, The Netherlands, Russia, Czech Republic, Germany and Norway.

All other segments comprise the activities of Contract Manufacturing and Corporate. These did not meet the quantitative thresholds for determining reportable operating segments in 2010 or 2009.

Information regarding the results of each reportable segment is included below. Segment performance measures are revenue and trading profit/(loss) as included in the internal management reports that are reviewed by the executive Directors. These measures are used to monitor performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Definitions of the non-GAAP profit measures set out in the tables below are provided in the accounting policies.

2010	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Eliminations £million**	**Total £million**
External revenue	**7,520**	**11,097**	**105**	**-**	**18,722**
Intra-group revenue	**-**	**1,327**	**147**	**(1,474)**	**-**
Total revenue	**7,520**	**12,424**	**252**	**(1,474)**	**18,722**
EBITDA	**935**	**299**	**(34)**	**-**	**1,200**
Underlying depreciation and amortisation	**(205)**	**(47)**	**(8)**	**-**	**(260)**
Trading profit/(loss)	**730**	**252**	**(42)**	**-**	**940**
Share of underlying post tax earnings of associates and joint ventures					**101**
Underlying net finance costs					**(430)**
Underlying tax charge					**(9)**
Underlying profit					**602**

2009	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Eliminations £million	Total £million
External revenue	7,127	9,962	106	-	17,195
Intra-group revenue	20	1,303	-	(1,323)	-
Total revenue	7,147	11,265	106	(1,323)	17,195
EBITDA	876	259	(39)	-	1,096
Underlying depreciation and amortisation	(203)	(44)	(8)	-	(255)
Trading profit/(loss)	673	215	(47)	-	841
Share of underlying post tax earnings of associates and joint ventures					75
Underlying net finance costs					(705)
Underlying tax charge					25
Underlying profit					236

4. Segmental information (continued)

The reconciliation of trading profit to profit before tax is set out below:

	2010 £million	2009 £million
Trading profit	**940**	841
Amortisation of customer relationships and brands	**(94)**	(80)
Exceptional items	**(160)**	(121)
Profit from operations before associates and joint ventures	**686**	640
Share of post tax earnings of associates and joint ventures	**99**	75
Impairment of investment in associate	**-**	(15)
Profit from operations	**785**	700
Net finance costs	**(310)**	(687)
Profit before tax	**475**	13

The share of post tax earnings of associates and joint ventures of £99 million (2009: £75 million) is stated after the Group's share of exceptional items of associates and joint ventures of £2 million (2009: £nil).

The reconciliation of underlying profit to statutory profit for the year is set out below:

	2010 £million	2009 £million
Underlying profit	**602**	236
Amortisation of customer relationships and brands	**(94)**	(80)
Net exceptional items before tax	**(34)**	(58)
Timing differences on net finance costs	**(8)**	(60)
Tax credit on items not in underlying profit	**49**	63
Exceptional tax credit	**89**	-
Profit for the year	**604**	101

The Group's segment operating assets and liabilities at the year end were:

			2010			2009
	Assets £million	Liabilities £million	Net £million	Assets £million	Liabilities £million	Net £million
Health & Beauty Division	**10,828**	**(1,240)**	**9,588**	10,899	(1,164)	9,735
Pharmaceutical Wholesale Division	**5,862**	**(2,512)**	**3,350**	5,933	(2,380)	3,553
All other segments	**169**	**(75)**	**94**	147	(84)	63
Eliminations	**(277)**	**277**	**-**	(271)	271	-
Operating assets/(liabilities)	**16,582**	**(3,550)**	**13,032**	16,708	(3,357)	13,351
Unallocated:						
Investments in associates and joint ventures	**1,143**	**-**	**1,143**	1,079	-	1,079
Available-for-sale investments	**80**	**-**	**80**	39	-	39
Net retirement benefit (obligations)/assets	**-**	**(462)**	**(462)**	216	(28)	188
Assets classified as held for sale	**9**	**-**	**9**	11	-	11
Net current and deferred tax	**227**	**(1,300)**	**(1,073)**	102	(1,512)	(1,410)
Net borrowings	**703**	**(9,092)**	**(8,389)**	820	(9,854)	(9,034)
	18,744	**(14,404)**	**4,340**	18,975	(14,751)	4,224

Segment operating assets at the year end comprised goodwill of £4,649 million (2009: £4,771 million), other intangible assets of £5,456 million (2009: £5,533 million), property, plant and equipment of £2,091 million (2009: £2,147 million), non-current other receivables of £153 million (2009: £66 million), inventories of £1,623 million (2009: £1,542 million), and trade and other receivables of £2,610 million (2009: £2,649 million).

Segment operating liabilities at the year end comprised trade and other payables of £3,377 million (2009: £3,213 million), current provisions of £37 million (2009: £88 million), non-current other payables of £92 million (2009: £21 million) and non-current provisions of £44 million (2009: £35 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

Other information in respect of the Group's segments was:

2010	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	**76**	**63**	**-**	**139**
Depreciation of property, plant and equipment	**176**	**36**	**8**	**220**
Additions to non-current assets				
- goodwill	**18**	**-**	**-**	**18**
- other intangible assets	**40**	**16**	**1**	**57**
- property, plant and equipment	**158**	**26**	**4**	**188**

2009	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	65	55	-	120
Depreciation of property, plant and equipment	184	33	8	225
Additions to non-current assets				
- goodwill	10	102	-	112
- other intangible assets	29	21	-	50
- property, plant and equipment	195	33	8	236

Segmental revenue based on the geographical location of customers was:

	2010 £million	2009 £million
UK	**8,370**	7,798
France	**4,780**	4,519
Other	**5,646**	4,958
Intra-group	**(74)**	(80)
	18,722	17,195

No revenues arose in Switzerland, the Company's country of domicile.

Segmental non-current, non-financial assets, excluding deferred tax assets and retirement benefit assets, based on the geographical location of the assets were:

	2010 £million	2009 £million
UK	**10,119**	10,156
France	**661**	841
Other	**2,559**	2,533
	13,339	13,530

Segment non-current, non-financial assets at the year end comprised goodwill of £4,649 million (2009: £4,771 million), other intangible assets of £5,456 million (2009: £5,533 million), property, plant and equipment of £2,091 million (2009: £2,147 million) and investments in associates and joint ventures of £1,143 million (2009: £1,079 million).

4. Segmental information (continued)

The Group's external revenues for groups of similar products and services were:

	2010 £million	2009 £million
Health & Beauty Division		
Dispensing and Related Income	**2,788**	2,715
Retail	**4,412**	4,251
Optical	**320**	181
	7,520	7,147
Pharmaceutical Wholesale Division		
Wholesale	**12,424**	11,265
	12,424	11,265
All other segments and eliminations	**(1,222)**	(1,217)
	18,722	17,195

5. Profit from operations before associates and joint ventures

2010	**Before amortisation of customer relationships and brands, and exceptional items £million**	**Amortisation of customer relationships and brands £million**	**Exceptional items £million**	**Total £million**
Revenue	**18,722**	**-**	**-**	**18,722**
Cost of sales	**(14,355)**	**-**	**-**	**(14,355)**
Gross profit	**4,367**	**-**	**-**	**4,367**
Selling, distribution and store costs	**(2,941)**	**(94)**	**(39)**	**(3,074)**
Administrative costs	**(486)**	**-**	**(2)**	**(488)**
Goodwill impairment	**-**	**-**	**(121)**	**(121)**
Profit on disposal of non-current assets	**-**	**-**	**2**	**2**
Profit from operations before associates and joint ventures	**940**	**(94)**	**(160)**	**686**

2009	Before amortisation of customer relationships and brands, and exceptional items £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Total £million
Revenue	17,195	-	-	17,195
Cost of sales	(13,147)	-	-	(13,147)
Gross profit	4,048	-	-	4,048
Selling, distribution and store costs	(2,753)	(80)	(62)	(2,895)
Administrative costs	(454)	-	(34)	(488)
Goodwill impairment	-	-	(25)	(25)
Profit from operations before associates and joint ventures	841	(80)	(121)	640

6. Exceptional items

	2010 £million	2009 £million
Within profit from operations		
Impairment of goodwill[1]	**(121)**	(25)
Costs in relation to merger synergies and second phase of integration projects	**(41)**	(36)
Costs in relation to Pharmaceutical Wholesale Division restructuring programme	**-**	(60)
Profit on disposal of non current assets[2]	**2**	-
Within profit from operations before associates and joint ventures	**(160)**	(121)
Within share of post tax earnings of associates and joint ventures	**(2)**	-
Impairment of investment in associate	**-**	(15)
	(162)	(136)
Within finance income		
Discounts on repurchase of acquisition borrowings[3]	**128**	106
Impairment of available-for-sale investment	**-**	(28)
	128	78
Within tax		
Tax on exceptional items	**10**	24
Exceptional tax[4]	**89**	-
	99	24
	65	(34)

1 The Group recorded an impairment on part of the goodwill allocated to its Pharmaceutical Wholesale business in France where profitability was impacted by a number of factors, including increased competition in what continues to be a difficult market.
2 The Group recorded a net gain on disposing of several non-current assets previously reclassified as held for sale (note 22).
3 During the year the Group repurchased acquisition borrowings, comprising mezzanine and senior facilities debt drawn under the subordinated bank loan facility, from holders in the secondary market. The nominal value of borrowings repurchased was £367 million and the total discount, net of the related prepaid financing fees, was accounted for as a redemption of bank loans, reducing the Group's net borrowings.
4 Deferred tax liabilities in respect of remittable earnings from associates and joint ventures were released following a change in UK tax rules which exempts dividends from substantial shareholdings.

7. Profit from operations

The following items have been deducted in arriving at profit from operations:

	2010 £million	2009 £million
Amortisation of other intangible assets	**139**	120
Depreciation of property, plant and equipment	**220**	225
Operating lease rentals	**354**	332
Employee costs	**1,862**	1,749

An analysis of the total remuneration paid to the Group's principal auditor is provided below:

	2010 £million	2009 £million
Audit		
- Consolidated Financial Statements	**0.3**	0.4
- subsidiary financial statements	**1.9**	1.9
	2.2	2.3
Other services		
- corporate finance transactions	**-**	0.6
- taxation	**0.3**	0.5
- other	**0.3**	0.3
	0.6	1.4
	2.8	3.7

8. Employee costs

The average monthly number of persons employed by the Group over the year, including Directors and part-time employees, was:

	2010		2009	
	Number of heads	Full time equivalents	Number of heads	Full time equivalents
Health & Beauty Division	**77,334**	**49,417**	76,724	48,634
Pharmaceutical Wholesale Division	**15,337**	**13,522**	15,584	13,782
Contract Manufacturing & Corporate	**2,070**	**1,949**	2,011	1,950
	94,741	**64,888**	94,319	64,366

Costs incurred in respect of these employees were:

	2010 £million	2009 £million
Wages and salaries	**1,596**	1,497
Social security costs	**203**	181
Retirement benefit costs		
- defined benefit schemes	**45**	54
- defined contribution schemes	**18**	17
	1,862	1,749

9. Finance income

	2010 £million	2009 £million
Bank deposit and other interest income	**47**	48
Net fair value movements on non-designated derivative financial instruments	**10**	-
Expected return on defined benefit scheme assets	**207**	234
Other finance income	**6**	5
	270	287
Exceptional items		
- discounts on repurchase of acquisition borrowings	**128**	106
- impairment of available-for-sale investment	**-**	(28)
	128	78
	398	365

10. Finance costs

	2010 £million	2009 £million
Interest on bank loans and overdrafts	**393**	632
Interest on defined benefit scheme liabilities	**225**	241
Financing fees	**41**	76
Net fair value movements on non-designated derivative financial instruments	**12**	60
Fair value movement on future dividend obligations to minority interests	**6**	-
Other finance costs	**31**	43
	708	1,052

Interest on bank loans and overdrafts includes £19 million (2009: £27 million) of rolled up interest on mezzanine debt which is payable when the debt itself is settled.

The total interest expense for financial liabilities not held at fair value through profit and loss was £454 million (2009: £721 million).

Financing fees include £30 million (2009: £46 million) of amortised fees which are being expensed over the term of the financing being provided.

11. Tax

An analysis of the tax credit in the year was:

	2010 £million	2009 £million
Current tax		
Current tax charge for the year	**(53)**	(5)
Adjustments in respect of prior year	**(1)**	1
	(54)	(4)
Deferred tax		
Deferred tax credit relating to the origination and reversal of temporary differences	**183**	92
	183	92
	129	88

The Group's principal operations are geographically dispersed and therefore the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit before tax. The reconciliation of the expected total tax (charge)/credit was based on this weighted average standard tax rate of 24.7% (2009: 37.1%).

The effective average tax rate, which is defined as the tax credit expressed as a percentage of profit from operations excluding share of post tax earnings of associates and joint ventures, net of finance income and finance costs, was (34.3)% (2009: 141.9%).

The reconciliation of the expected total tax (charge)/credit to the reported tax credit in the year was:

	2010 £million	2009 £million
Profit before tax	**475**	13
Less: share of post tax earnings of associates and joint ventures	**(99)**	(75)
	376	(62)
Expected tax (charge)/credit at weighted average standard tax rate	**(93)**	23
Factors affecting credit for the year		
- non-taxable items	**17**	11
- write down of brought forward deferred tax asset on unrelieved tax losses	**10**	-
- unrelieved tax losses arising in the year	**(2)**	(1)
- deferred tax on remittable earnings of associates and joint ventures[1]	**40**	(8)
- current tax adjustments in respect of prior periods	**(1)**	1
- deferred tax adjustments in respect of prior periods[2]	**75**	67
- other differences	**(6)**	(5)
- exceptional tax[3]	**89**	-
	129	88

[1] Deferred tax liabilities in respect of remittable earnings were released due to internal restructuring of the ownership of an associate (enabling the Group to control the timing of future dividends which give rise to withholding tax costs).
[2] Deferred tax adjustments in respect of prior periods includes £47 million arising from the favourable resolution of prior year computations and £33 million primarily resulting from tax revisions in the estimated valuation of tax base costs for the Group's property assets. The prior year amount related to deferred tax assets recognised on capital allowances that were not claimed due to taxable losses and the recognition of prior period UK losses.
[3] Deferred tax liabilities in respect of remittable earnings from associates and joint ventures were released following a change in UK tax rules which exempts dividends from substantial shareholdings.

The underlying tax (charge)/credit, calculated before exceptional items, amortisation of customer relationships and brands, timing differences on net finance costs and other exceptional tax, reconciled to the tax credit in the year was:

	2010 £million	2009 £million
Underlying tax (charge)/credit	**(9)**	25
Tax on		
- amortisation of customer relationships and brands	**36**	23
- exceptional items	**10**	24
- timing differences on net finance costs	**3**	16
Other exceptional tax	**89**	-
	129	88

11. Tax (continued)

Tax credit on items taken directly to other comprehensive income comprised:

	2010			2009		
	Before tax £million	Tax £million	After tax £million	Before tax £million	Tax £million	After tax £million
Other comprehensive income						
Net exchange differences on translation of non-Sterling denominated operations	35	-	35	97	-	97
Defined benefit schemes - net actuarial losses	(694)	194	(500)	(152)	45	(107)
Fair value losses on cash flow hedging instruments net of amounts recycled	(1)	-	(1)	-	-	-
Net movements on available-for-sale reserve	30	-	30	21	-	21
Share of post tax other comprehensive income of associates and joint ventures	(10)	-	(10)	-	-	-
	(640)	194	(446)	(34)	45	11

12. Goodwill

	2010 £million	2009 £million
Net book value		
At 1 April	4,771	4,514
Acquisitions	18	112
Impairment	(121)	(25)
Fair value adjustments relating to prior period transactions	(5)	-
Currency translation differences	(14)	170
At 31 March	4,649	4,771

The cumulative impairment of goodwill was £146 million (2009: £25 million).

13. Other intangible assets

2010	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £million	Total £million
Cost						
At 1 April 2009	1,285	2,986	1,263	221	4	5,759
Acquisitions	1	4	18	-	-	23
Additions	1	-	-	52	4	57
Disposals	-	-	-	(4)	-	(4)
Reclassified to assets held for sale	(4)	-	-	-	-	(4)
Currency translation differences	-	-	(14)	(1)	-	(15)
At 31 March 2010	1,283	2,990	1,267	268	8	5,816
Amortisation						
At 1 April 2009	-	6	139	81	-	226
Charge	-	7	87	44	1	139
Disposals	-	-	-	(3)	-	(3)
Currency translation differences	-	-	(1)	(1)	-	(2)
At 31 March 2010	-	13	225	121	1	360
Net book value	1,283	2,977	1,042	147	7	5,456

2009	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £million	Total £million
Cost:						
At 1 April 2008	1,260	2,979	1,154	167	3	5,563
Acquisitions	23	7	42	1	-	73
Additions	-	-	-	50	-	50
Disposals	-	-	-	(6)	-	(6)
Currency translation differences	2	-	67	9	1	79
At 31 March 2009	1,285	2,986	1,263	221	4	5,759
Amortisation:						
At 1 April 2008	-	3	55	45	-	103
Charge	-	3	77	40	-	120
Disposals	-	-	-	(6)	-	(6)
Currency translation differences	-	-	7	2	-	9
At 31 March 2009	-	6	139	81	-	226
Net book value	1,285	2,980	1,124	140	4	5,533

Of the income statement amortisation charge of £139 million (2009: £120 million), £107 million (2009: £91 million) was recognised in selling, distribution and store costs, and £32 million (2009: £29 million) was recognised in administrative costs.

14. Impairment testing of goodwill and other intangible fixed assets

Goodwill, pharmacy licences and brands which have an indefinite useful life are subject to annual impairment testing, or are assessed more frequently if there are indications of impairment.

Goodwill, pharmacy licences, brands and customer relationships have been allocated to the appropriate cash generating units (CGUs) identified according to the country of operation and business. Those with significant amounts allocated at the year end are shown in the table below:

	2010				2009			
	Goodwill £million	**Pharmacy licences £million**	**Brands £million**	**Customer relationships £million**	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million
Health & Beauty Division - Boots UK	**2,491**	**1,275**	**2,922**	**539**	2,491	1,278	2,926	570
Pharmaceutical Wholesale - UK	**1,044**	**-**	**-**	**125**	1,044	-	-	139
Other	**1,114**	**8**	**55**	**378**	1,236	7	54	415
	4,649	**1,283**	**2,977**	**1,042**	4,771	1,285	2,980	1,124

Following the acquisition of Dollond & Aitchison during the year, Boots Opticians is being run as a stand-alone business from Boots UK, and the goodwill and brands values shown for Boots UK in the table above at 31 March 2009 are presented on this basis.

Other comprises of individually non-significant CGUs in comparison with the Group's total carrying amount of goodwill and other intangible assets.

The recoverable amounts of the CGUs are determined from value-in-use calculations which use discounted pre tax cash flows for a period of five years taken from approved budgets and three year forecasts, and extrapolated cash flows for the periods beyond these using estimated long term growth rates. The key assumptions are:

- **Long term average growth rates** are used to extrapolate cash flows. These are determined with reference to both internal approved budgets and forecasts and available external long term growth data for both the country and sector of each CGU.
- **Discount rates** are calculated separately for each CGU and reflect the individual nature and specific risks relating to the market in which it operates.
- **Gross margins** are based on past performance and management's expectations of market development. No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed.

The CGUs with significant amounts of intangible assets are Boots UK and UK Wholesale. The pre tax discount rates used in the impairment tests for these businesses were 13.5% (2009: 14.0%), and the long term growth rates were 3.4% and 4.2% respectively (2009: 4.8% and 4.5% respectively).

As a result of performing these impairment tests, the Group has determined that part of the goodwill allocated to the Pharmaceutical Wholesale business in France was impaired by £121 million. The pre tax discount rate and long term growth rate applied in the supporting value-in-use calculation were 15% and 2.7% respectively.

15. Property, plant and equipment

2010	**Land and buildings £million**	**Plant and machinery £million**	**Fixtures, fittings, tools and equipment £million**	**Total £million**
Cost				
At 1 April 2009	**1,192**	**158**	**1,173**	**2,523**
Acquisitions	**-**	**-**	**18**	**18**
Additions	**29**	**23**	**136**	**188**
Disposals	**(12)**	**(3)**	**(22)**	**(37)**
Reclassified to assets held for sale	**(15)**	**-**	**-**	**(15)**
Transfers from assets under course of construction	**(30)**	**5**	**25**	**-**
Currency translation differences	**(11)**	**(3)**	**(4)**	**(18)**
At 31 March 2010	**1,153**	**180**	**1,326**	**2,659**
Depreciation				
At 1 April 2009	**33**	**43**	**300**	**376**
Charge	**14**	**17**	**189**	**220**
Disposals	**(1)**	**(3)**	**(16)**	**(20)**
Currency translation differences	**(2)**	**(2)**	**(4)**	**(8)**
At 31 March 2010	**44**	**55**	**469**	**568**
Net book value	**1,109**	**125**	**857**	**2,091**

2009	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost:				
At 1 April 2008	1,102	147	990	2,239
Acquisitions	5	3	5	13
Additions	49	8	179	236
Disposals	(11)	(6)	(14)	(31)
Business disposals	-	-	(3)	(3)
Currency translation differences	47	6	16	69
At 31 March 2009	1,192	158	1,173	2,523
Depreciation:				
At 1 April 2008	14	19	128	161
Charge	18	26	181	225
Disposals	-	(3)	(8)	(11)
Business disposals	-	-	(3)	(3)
Currency translation differences	1	1	2	4
At 31 March 2009	33	43	300	376
Net book value	1,159	115	873	2,147

Of the income statement depreciation charge of £220 million (2009: £225 million), depreciation of £6 million (2009: £6 million) was recognised in cost of sales, £181 million (2009: £182 million) was recognised in selling, distribution and store costs, and £33 million (2009: £37 million) was recognised in administrative costs.

Included within the net book values were amounts in respect of assets held under finance leases of £20 million (2009: £17 million) in land and buildings, £8 million (2009: £10 million) in plant and machinery and £15 million (2009: £26 million) in fixtures, fittings, tools and equipment.

Property, plant and equipment included payments on account and assets in the course of construction of £20 million (2009: £50 million).

16. Investments in associates and joint ventures

	2010 £million	2009 £million
At 1 April	**1,079**	910
Share of post tax earnings	**99**	75
Share of other comprehensive income	**(10)**	-
Dividends	**(39)**	(34)
Impairment	**-**	(15)
Reclassified to assets held for sale	**(2)**	(11)
Currency translation differences	**16**	154
At 31 March	**1,143**	1,079

Details of the Group's principal associates and joint venture are provided in note 36.

Included within the total carrying value of investments in associates and joint ventures was £581 million (2009: £552 million) in respect of listed companies. Their market value, based on their closing share prices at 31 March 2010, was £509 million (2009: £383 million).

The aggregate assets and liabilities reported by associates and joint ventures at 31 March 2010 were:

	2010 £million	2009 £million
Total assets	**5,115**	4,142
Total liabilities	**(3,645)**	(2,977)
Net assets	**1,470**	1,165
Group's share	**580**	442

The Group's share of contingent liabilities of associates and joint ventures was £40 million (2009: £10 million).

The aggregate revenues reported by associates and joint ventures for the year ended 31 March 2010 were:

	2010 £million	2009 £million
Total revenue	**9,696**	8,870
Group's share	**3,791**	3,348

The aggregate post tax earnings reported by associates and joint ventures for the year ended 31 March 2010 were:

	2010 £million	2009 £million
Total post tax earnings	**268**	207
Group's share	**99**	75

17. Available-for-sale investments

	2010 £million	2009 £million
At 1 April	**39**	48
Additions	**12**	3
Disposal	**(2)**	-
Movements in fair value	**30**	(18)
Currency translation differences	**1**	6
At 31 March	**80**	39

17. Available-for-sale investments (continued)

Available-for-sale investments were categorised:

	2010 £million	2009 £million
Listed securities		
- equity	**62**	27
- non-equity	**14**	8
Unlisted securities - equity	**4**	4
	80	39

The listed non-equity securities are pledged as collateral for an unfunded defined benefit pension scheme.

18. Inventories

	2010 £million	2009 £million
Raw materials	**23**	32
Work in progress	**8**	8
Finished goods	**1,592**	1,502
	1,623	1,542

Included in the aggregate carrying value presented above was £50 million (2009: £32 million) of inventories held at net realisable value.

The net reversal in the year of write-downs that were previously recognised as a reduction in the carrying value of inventories to net realisable value was £5 million (2009: net write-down of £8 million). The cost of inventories expensed in both years presented was not materially different to the cost of sales recorded (note 5).

19. Trade and other receivables

	2010 £million	2009 £million
Non-current		
Loans to customers and extended terms	**23**	30
Short leasehold premiums	**31**	25
Other loans and profit participating note	**39**	-
Other receivables	**60**	11
	153	66
Current		
Trade receivables	**2,291**	2,296
Provision for impairment of trade receivables	**(47)**	(39)
	2,244	2,257
Loans to customers and extended terms	**66**	82
Prepayments and accrued income	**155**	143
Other receivables	**145**	167
	2,610	2,649

Other loans and profit participating note included a profit participating note of £37 million (2009: £nil), which was issued by a related party that has invested in the Group's acquisition borrowings. The profit participating note is redeemable in 2059.

Loans to customers and extended terms included receivables of £84 million (2009: £107 million) where contractual terms have been renegotiated to extend the credit period offered.

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write these down to their estimated recoverable amounts. The aggregate carrying value of impaired trade receivables was £189 million (2009: £202 million) and the associated aggregate impairment was £47 million (2009: £39 million).

Included within the aggregate unimpaired trade receivables were £133 million (2009: £167 million) which were past due. These balances have been assessed for recoverability and the Group believes that their credit quality remains intact. An ageing analysis of these unimpaired past due trade receivables was:

	Less than 1 month past due £million	1-2 months past due £million	2-3 months past due £million	More than 3 months past due £million	Total past due £million
Carrying value at 31 March 2010	**75**	**28**	**11**	**19**	**133**
Carrying value at 31 March 2009	100	29	20	18	167

The movement in the provision for impairment of trade receivables was:

	2010 £million	2009 £million
At 1 April	**(39)**	(32)
Provision for impairment	**(17)**	(13)
Amounts written off	**8**	5
Reversal of provision for impairment	**2**	6
Currency translation differences	**(1)**	(5)
At 31 March	**(47)**	(39)

20. Cash and cash equivalents

	2010 £million	2009 £million
Bank balances	**194**	178
Short term deposits	**149**	295
Cash and cash equivalents	**343**	473
Bank overdrafts	**(271)**	(263)
Cash and cash equivalents in the statement of cash flows	**72**	210

21. Restricted cash

Restricted cash at 31 March 2010 of £349 million (2009: £343 million) consisted of loan notes pledged as collateral of £165 million (2009: £239 million), cash pledged as collateral on financial instruments and other obligations of £91 million (2009: £nil), deposits restricted under contractual agency agreements of £91 million (2009: £104 million) and cash restricted by law of £2 million (2009: £nil).

22. Assets classified as held for sale

The carrying amounts of assets classified as held for sale were:

	2010 £million	2009 £million
Property, plant and equipment	**9**	-
Investment in associate	**-**	11
	9	11

During the year, the Group disposed of two associate investments, and a small number of pharmacies, which had previously been reclassified as assets held for sale. The proceeds and gain on disposal of these investments and pharmacies were £18 million and £2 million respectively (2009: £nil). The gain has been presented as an exceptional item. In addition, several buildings were reclassified as held for sale and disposed of during the year. The proceeds on these disposals were £7 million.

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following after offset:

	2010 Net £million	2009 Net £million
Unrelieved tax losses	97	102
Accelerated capital allowances	(120)	(165)
Retirement benefit obligations/(assets)	130	(45)
Fair value items	(893)	(1,014)
Rolled over gains	(30)	(30)
Remittable earnings of associates and joint ventures	-	(42)
Other temporary differences	(208)	(202)
Net deferred tax liabilities	(1,024)	(1,396)

The movement in the net deferred tax liability balance was:

	2010 £million	2009 £million
At 1 April	(1,396)	(1,479)
Acquisitions	(11)	(15)
Income statement credit	183	92
Credited to equity	194	45
Currency translation differences	6	(39)
At 31 March	(1,024)	(1,396)

The movement in deferred tax assets and liabilities during the year was:

2010	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Fair value items related to business combinations £million	Rolled over gains £million	Remittable earnings of associates and joint ventures £million	Other temporary differences £million	Total £million
Deferred tax assets								
At 1 April 2009	102	-	-	-	-	-	-	102
Income statement charge	(2)	-	-	-	-	-	-	(2)
Reclassified from liabilities	-	-	130	-	-	-	-	130
Currency translation differences	(3)	-	-	-	-	-	-	(3)
At 31 March 2010	97	-	130	-	-	-	-	227
Deferred tax liabilities								
At 1 April 2009	-	(165)	(45)	(1,014)	(30)	(42)	(202)	(1,498)
Acquisitions	-	(5)	-	(6)	-	-	-	(11)
Income statement credit/(charge)	-	50	(19)	120	-	40	(6)	185
Credited to equity	-	-	194	-	-	-	-	194
Reclassified to assets	-	-	(130)	-	-	-	-	(130)
Currency translation differences	-	-	-	7	-	2	-	9
At 31 March 2010	-	(120)	-	(893)	(30)	-	(208)	(1,251)
Net deferred tax assets/(liabilities)	97	(120)	130	(893)	(30)	-	(208)	(1,024)

The income statement credits include a release of £89 million in respect of remittable earnings from associates and joint ventures following a change in UK tax rules which exempts dividends from substantial shareholdings and a release of £40 million due to internal restructuring of the ownership of an associate, enabling the Group to control the timing of future dividends which give rise to withholding tax costs.

2009	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets £million	Fair value items £million	Rolled over gains £million	Remittable earnings of associates and joint ventures £million	Other temporary differences £million	Total £million
Deferred tax assets:								
At 1 April 2008	66	-	-	-	-	-	-	66
Acquisitions	5	-	-	-	-	-	-	5
Income statement credit	27	-	-	-	-	-	-	27
Currency translation differences	4	-	-	-	-	-	-	4
At 31 March 2009	102	-	-	-	-	-	-	102
Deferred tax liabilities:								
At 1 April 2008	-	(63)	(83)	(1,213)	(30)	(69)	(87)	(1,545)
Reclassifications	-	(119)	1	196	(1)	46	(123)	-
Acquisitions	-	-	-	(18)	-	-	(2)	(20)
Income statement credit/(charge)	-	19	(9)	58	1	(14)	10	65
Credited to equity	-	-	45	-	-	-	-	45
Currency translation differences	-	(2)	1	(37)	-	(5)	-	(43)
At 31 March 2009	-	(165)	(45)	(1,014)	(30)	(42)	(202)	(1,498)
Net deferred tax assets/(liabilities)	102	(165)	(45)	(1,014)	(30)	(42)	(202)	(1,396)

Unrecognised deferred tax assets and liabilities

Deferred tax assets have only been recognised on deductible temporary differences, unused tax losses or tax credits to the extent that future taxable profits will be available against which the asset can be utilised, or where these can be utilised against other taxable temporary differences. The assets are recorded after reviewing the financial forecasts of the Group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that a taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on trading losses net of amortisation was £18 million (2009: £3 million) and on capital losses was £nil (2009: £nil). The trading losses can be carried forward for 20 years.

Deferred tax liabilities of £4 million (2009: £16 million) have not been recognised for the tax that would be payable on the unremitted earnings of certain subsidiary undertakings since the Group has discretion over the manner and timing of any distributions, if any, to be made in the future. Unremitted earnings of these subsidiary undertakings totalled £28 million (2009: £108 million).

24. Trade and other payables

	2010 £million	2009 £million
Current		
Trade payables	**2,478**	2,334
Other taxation and social security	**146**	135
Accruals and deferred income	**461**	454
Other payables	**292**	290
	3,377	3,213
Non-current		
Other payables	**92**	21
	92	21

Non-current other payables includes £68 million relating to future dividend obligations to the minority interests (note 25).

25. Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2010 £million	2009 £million
Current borrowings		
Bank overdrafts	**(271)**	(263)
Bank loans - other	**(109)**	(112)
£300 million Eurobond 2009 5.5%	**-**	(300)
Loan notes	**(166)**	(240)
Finance lease liabilities	**(10)**	(15)
	(556)	(930)
Non-current borrowings		
Bank loans - senior facilities	**(7,550)**	(7,919)
Bank loans - subordinated facility	**(583)**	(597)
Bank loans - other	**(90)**	(53)
Other loans	**(75)**	(75)
Finance lease liabilities	**(24)**	(30)
	(8,322)	(8,674)
Total borrowings	**(8,878)**	(9,604)
Cash and cash equivalents	**343**	473
Total borrowings net of cash and cash equivalents	**(8,535)**	(9,131)
Restricted cash	**349**	343
Derivative financial instruments - currency rate and credit instrument assets	**11**	4
Derivative financial instruments - currency and interest rate instrument liabilities	**(214)**	(250)
Net borrowings	**(8,389)**	(9,034)
Available-for-sale investments	**80**	39
Loans to customers and extended terms	**89**	112
Other loans and profit participating note	**39**	-
Trade receivables net of provision for impairment	**2,244**	2,257
Trade payables	**(2,478)**	(2,334)
Future dividend obligations to minority interests	**(68)**	-
Net financial liabilities	**(8,483)**	(8,960)

The Group's principal net borrowings arose from the following sources:

- Variable rate committed bank term loans - senior and subordinated facilities. These loans, which are denominated in Sterling, Euros and Swiss Francs, are fully drawn and their aggregate carrying value at 31 March 2010 was £8,133 million (2009: £8,516 million) including the impact of currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017.
- £166 million (2009: £240 million) of loan notes classified within current borrowings, which can be redeemed by the holders giving notice prior to the semi-annual interest payment dates. If no such notice is given the notes will fall due on their contractual maturity dates which are up to 2014. The Group holds a floating rate interest bearing deposit of £165 million (2009: £239 million) shown within restricted cash (note 21) as collateral against loan notes with the same principal amount. This deposit is only available to the Group for the purpose of redeeming the associated loan notes.
- Bank overdrafts which are repayable on demand.

Maturity profile of financial liabilities

The table below shows the contractual maturities of financial liabilities on an undiscounted basis, excluding trade payables for which the time value of money is not material. Interest payments are calculated based on liabilities held at 31 March 2010 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2010. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2010. All floating rate borrowings re-price within six months of the year end.

2010	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed						
Other loans	(75)	(99)	(6)	(6)	(87)	-
Finance lease liabilities	(34)	(50)	(10)	(9)	(12)	(19)
Floating						
Bank overdrafts	(271)	(271)	(271)	-	-	-
Bank loans - senior facilities	(7,550)	(10,033)	(335)	(363)	(2,631)	(6,704)
Bank loans - subordinated facility	(583)	(1,089)	(27)	(29)	(135)	(898)
Bank loans - other	(199)	(215)	(110)	(6)	(57)	(42)
Loan notes	(166)	(166)	(166)	-	-	-
Total borrowings	(8,878)	(11,923)	(925)	(413)	(2,922)	(7,663)
Trade payables	(2,478)	(2,478)	(2,478)	-	-	-
Total non-derivative financial liabilities	(11,356)	(14,401)	(3,403)	(413)	(2,922)	(7,663)
Interest rate derivatives						
- outflows		(103)	(39)	(39)	(25)	-
- inflows		33	6	8	19	-
	(38)	(70)	(33)	(31)	(6)	-
Currency swaps						
- outflows		(1,074)	(34)	(368)	(672)	-
- inflows		897	36	307	554	-
	(176)	(177)	2	(61)	(118)	-
Total derivative financial liabilities	(214)	(247)	(31)	(92)	(124)	-
Total financial liabilities	(11,570)	(14,648)	(3,434)	(505)	(3,046)	(7,663)

In addition to the contractual maturities of financial liabilities presented above, the Group has an ongoing future dividend obligation in relation to the minority interest arising on the acquisition of Dollond & Aitchison. The contractual undiscounted cash flows are £2 million within one year, £4 million between 1 and 2 years, and £14 million between 2 and 5 years.

25. Financial assets and liabilities (continued)

Maturity profile of financial liabilities (continued)

2009	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed:						
£300 million Eurobond 2009 5.5%	(300)	(317)	(317)	-	-	-
Other loans	(75)	(105)	(6)	(6)	(93)	-
Finance lease liabilities	(45)	(64)	(16)	(11)	(15)	(22)
Floating:						
Bank overdrafts	(263)	(263)	(263)	-	-	-
Bank loans - senior facilities	(7,919)	(11,194)	(405)	(409)	(1,582)	(8,798)
Bank loans - subordinated facility	(597)	(1,170)	(30)	(32)	(132)	(976)
Bank loans - other	(165)	(192)	(115)	(7)	(12)	(58)
Loan notes	(240)	(241)	(241)	-	-	-
Total borrowings	(9,604)	(13,546)	(1,393)	(465)	(1,834)	(9,854)
Trade payables	(2,334)	(2,334)	(2,334)	-	-	-
Total non-derivative financial liabilities	(11,938)	(15,880)	(3,727)	(465)	(1,834)	(9,854)
Interest rate derivatives						
- outflows		(151)	(39)	(39)	(73)	-
- inflows		50	8	11	31	-
	(82)	(101)	(31)	(28)	(42)	-
Currency swaps						
- outflows		(952)	(44)	(35)	(873)	-
- inflows		781	47	37	697	-
	(168)	(171)	3	2	(176)	-
Total derivative financial liabilities	(250)	(272)	(28)	(26)	(218)	-
Total financial liabilities	(12,188)	(16,152)	(3,755)	(491)	(2,052)	(9,854)

Currency profile

The financial assets and liabilities by currency, before the effects of currency hedging, were:

2010	**Total £million**	**Sterling £million**	**Euros £million**	**Swiss Francs £million**	**Other £million**
Bank overdrafts	**(271)**	**(123)**	**(141)**	**-**	**(7)**
Bank loans - senior facilities	**(7,550)**	**(5,258)**	**(2,043)**	**(249)**	**-**
Bank loans - subordinated facility	**(583)**	**(583)**	**-**	**-**	**-**
Bank loans - other	**(199)**	**-**	**(155)**	**-**	**(44)**
Other loans	**(75)**	**(75)**	**-**	**-**	**-**
Loan notes	**(166)**	**(166)**	**-**	**-**	**-**
Finance lease liabilities	**(34)**	**(29)**	**(5)**	**-**	**-**
Total borrowings	**(8,878)**	**(6,234)**	**(2,344)**	**(249)**	**(51)**
Cash and cash equivalents	**343**	**50**	**184**	**-**	**109**
Restricted cash	**349**	**256**	**90**	**-**	**3**
Derivative financial instruments - currency rate and credit instrument assets	**11**	**11**	**-**	**-**	**-**
Derivative financial instruments - currency and interest rate instrument liabilities	**(214)**	**(223)**	**9**	**-**	**-**
Available-for-sale investments	**80**	**17**	**63**	**-**	**-**
Other loans and profit participating note	**39**	**39**	**-**	**-**	**-**
Loans to customers and extended terms	**89**	**-**	**84**	**-**	**5**
Trade receivables net of provision for impairment	**2,244**	**878**	**1,158**	**-**	**208**
Trade payables	**(2,478)**	**(967)**	**(1,117)**	**-**	**(394)**
Future dividend obligations to minority interests	**(68)**	**(68)**	**-**	**-**	**-**
Net financial liabilities	**(8,483)**	**(6,241)**	**(1,873)**	**(249)**	**(120)**

2009	Total £million	Sterling £million	Euros £million	Swiss Francs £million	Other £million
Bank overdrafts	(263)	(61)	(195)	-	(7)
Bank loans - senior facilities	(7,919)	(5,505)	(2,130)	(284)	-
Bank loans - subordinated facility	(597)	(597)	-	-	-
Bank loans - other	(165)	-	(125)	-	(40)
£300 million Eurobond 5.5%	(300)	(300)	-	-	-
Other loans	(75)	(75)	-	-	-
Loan notes	(240)	(240)	-	-	-
Finance lease liabilities	(45)	(38)	(7)	-	-
Total borrowings	(9,604)	(6,816)	(2,457)	(284)	(47)
Cash and cash equivalents	473	313	107	-	53
Restricted cash	343	239	104	-	-
Derivative financial instruments - currency and interest rate instrument assets	4	4	-	-	-
Derivative financial instruments - currency and interest rate instrument liabilities	(250)	(241)	(9)	-	-
Available-for-sale investments	39	12	27	-	-
Loans to customers and extended terms	112	-	106	-	6
Trade receivables net of provision for impairment	2,257	800	1,278	-	179
Trade payables	(2,334)	(886)	(1,199)	-	(249)
Net financial liabilities	(8,960)	(6,575)	(2,043)	(284)	(58)

25. Financial assets and liabilities (continued)

Finance lease liabilities

	2010			2009		
	Minimum lease payments £million	Interest £million	Present value of minimum lease payments £million	Minimum lease payments £million	Interest £million	Present value of minimum lease payments £million
Less than one year	10	-	10	16	(1)	15
Between one year and five years	21	(3)	18	26	(2)	24
More than five years	19	(13)	6	22	(16)	6
	50	(16)	34	64	(19)	45

Under the terms of the finance lease agreements entered into by the Group, no material contingent rents are payable.

Carrying value and fair value

Carrying values and fair values of the Group's financial assets and liabilities held to finance the Group's operations were:

	2010		2009	
	Carrying value £million	Fair value £million	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Bank overdrafts	(271)	(271)	(263)	(263)
Bank loans - senior facilities	(7,550)	(7,669)	(7,919)	(8,070)
Bank loans - subordinated facility	(583)	(598)	(597)	(615)
Bank loans - other	(199)	(199)	(165)	(165)
£300 million Eurobond 5.5%	-	-	(300)	(298)
Other loans	(75)	(75)	(75)	(75)
Loan notes	(166)	(166)	(240)	(240)
Finance lease liabilities	(34)	(46)	(45)	(58)
Trade payables	(2,478)	(2,478)	(2,334)	(2,334)
	(11,356)	(11,502)	(11,938)	(12,118)
Liabilities held at fair value				
Derivative instruments - interest rate	(38)	(38)	(82)	(82)
Derivative instruments - currency	(176)	(176)	(168)	(168)
Future dividend obligations to minority interests	(68)	(68)	-	-
	(282)	(282)	(250)	(250)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	2,244	2,244	2,257	2,257
Loans to customers and extended terms	89	89	112	112
Other loans and profit participating note	39	39	-	-
	2,372	2,372	2,369	2,369
Financial assets held at fair value				
Derivative instruments - currency	1	1	4	4
Derivative instruments - credit	10	10	-	-
Available-for-sale investments	80	80	39	39
	91	91	43	43
Cash and cash equivalents	343	343	473	473
Restricted cash	349	349	343	343
Net financial liabilities	(8,483)	(8,629)	(8,960)	(9,140)

The fair values of bank overdrafts, bank loans - other, trade receivables and loans to customers approximate to their carrying values due to either their short term nature or being re-priced at variable interest rates. The carrying values of the senior facilities and subordinated facility bank loans, which are variable rate, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value.

The carrying values of financial assets and liabilities held at fair value, as analysed by the three levels of the fair value hierarchy, were:

2010	**Level 1 £million**	**Level 2 £million**	**Level 3 £million**	**Total £million**
Financial liabilities				
Interest rate derivatives	**-**	**(38)**	**-**	**(38)**
Cross currency swap derivatives	**-**	**(176)**	**-**	**(176)**
Future dividend obligations to minority interests	**-**	**-**	**(68)**	**(68)**
	-	**(214)**	**(68)**	**(282)**
Financial assets				
Forward foreign exchange derivatives	**-**	**1**	**-**	**1**
Total return swap	**-**	**10**	**-**	**10**
Available-for-sale investments	**80**	**-**	**-**	**80**
	80	**11**	**-**	**91**

2009	Level 1 £million	Level 2 £million	Level 3 £million	Total £million
Financial liabilities				
Interest rate derivatives	-	(82)	-	(82)
Cross currency swap derivatives	-	(168)	-	(168)
	-	(250)	-	(250)
Financial assets				
Forward foreign exchange derivatives	-	4	-	4
Available-for-sale investments	39	-	-	39
	39	4	-	43

The three levels of the fair value hierarchy reflect the significance of the valuation inputs used in making fair value measurements and are defined as follows:

Level 1: quoted prices in active markets for the same instrument.
Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.
Level 3: valuation techniques for which any significant input is not based on observable market data.

Derivative financial instruments
The derivative financial instruments that the Group holds are not traded in an active market. Accordingly, their fair values are determined by using suitable valuation techniques that do not make use of entity-specific estimates or by using movements in observable prices for underlying financial instruments attributable to the hedged risks. The fair values of interest rate swaps is calculated by discounting the estimated cash flows received and paid based on the applicable observable yield curves using the interest free rate. The fair value of interest rate caps is calculated using an options pricing methodology. The fair value of cross currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using the risk-free interest rate. The fair value of credit derivatives is calculated by discounting anticipated cash flows using the applicable observable yield curve plus a margin derived from the current trading value of the underlying security. All computed fair values for derivative financial instruments include an appropriate adjustment for own and counterparty credit risk as appropriate.

Future dividend obligations to minority interests
The fair value of future dividend obligations to minority interests is calculated by discounting the estimated future dividends at a discount rate that reflects the nature and specific risks relating to the market in which the underlying businesses operate.

Available-for-sale investments
The fair values of quoted investments are based on current bid prices.

26. Financial risk management

Capital risk management

The Group's objectives in managing its capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure that reduces the cost of capital.

The Group defines its capital employed of £12,700 million (2009: £13,216 million) as shareholders' equity of £4,311 million (2009: £4,182 million) and net borrowings of £8,389 million (2009: £9,034 million).

The ability of certain Group companies to pay dividends upwards, for ultimate distribution to shareholders, is restricted by the terms of the financing agreements to which they are party.

Financial risk management - overview

The Group's trading and financing activities expose it to various financial risks that could adversely impact on future earnings and cash flows. Although not necessarily mutually exclusive, these financial risks are categorised separately according to their different generic risk characteristics and include market risk (foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance and position.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities, sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with, or loans, from Group treasury companies.

The Group's core borrowings are provided through committed term loans. The carrying value of these loans, which are denominated in Sterling, Euros and Swiss Francs, at 31 March 2010 was £8,133 million (2009: £8,516 million) including the impact of repurchases, currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017. The Group also has access to a committed £820 million (2009: £820 million) revolving credit facility, £14 million (2009: £nil) of which was drawn down at 31 March 2010, £184 million (2009: £194 million) of which was utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £622 million (2009: £626 million) of which was available as at 31 March 2010. This facility provides access to funding in a range of currencies and is available until 2014.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern subject to material acquisitions and disposals. In particular, net borrowings peak in the period between September and November due to the working capital requirements of Christmas trading.

The Group monitors its net borrowing position on a daily basis against both budget and a rolling two month cash forecast. The maturity profile of the Group's financial liabilities at 31 March 2010 is shown in note 25.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments, cash balances, restricted cash and short term deposits.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the year end.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of the businesses. New customers are credit checked, customer limits are reviewed at least annually and aged receivable reviews are undertaken regularly.

The Group considers the possibility of significant loss in the event of non-performance by a financial or commercial counterparty to be unlikely.

At 31 March 2010 there were no significant concentrations of credit risk in respect of trade receivables and customer loans. The largest credit exposure of the Group at 31 March 2010 was to the National Health Service in the UK.

The maximum exposure to credit risk for trade receivables, including loans to customers and extended terms, net of provision for impairment, other loans and the profit participating note at 31 March 2010 by geographic region was:

	2010 £million	2009 £million
UK	**914**	800
Other European countries	**1,453**	1,564
Other countries	**5**	5
	2,372	2,369

Exposures to other financial counterparties arise from other non trade receivables, the use of derivative financial instruments, cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups. Limits are set by reference to ratings issued by the major rating agencies, Standard and Poor's and Moody's Investors Service Limited.

At 31 March 2010 total exposures of the Group to other financial counterparties was £779 million (2009: £820 million) of which £48 million (2009: £4 million) related to derivative financial instruments, £343 million (2009: £473 million) was in respect of cash and cash equivalents, £349 million (2009: £343 million) was in respect of restricted cash and £39 million (2009: £nil) which was in respect of other loans and the profit participating note.

£439 million (2009: £588 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury spread across a number of high quality counterparties, all of whom have a credit rating of A or better. The remaining £301 million (2009: £232 million) of cash and cash equivalents represents short term deposits, restricted cash, cash-in-transit and cash held in operational bank accounts across the Group, with a further £39 million lent to or invested in unrated entities.

Market risk
Market risk is the risk that changes in market prices, such as currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risks within acceptable parameters. The Group transacts in financial instruments including derivatives in order to manage these risks in accordance with the Group treasury policies approved by the Board.

Currency risk
The Group is party to a variety of currency derivatives in the management of exchange rate exposures, including cross currency swaps and forward currency exchange contracts. Movements in the fair value of all forward currency exchange contracts other than those that are designated and effective as cash flow hedges or net investment hedges are reported directly in the income statement.

Currency transaction risk
The Group utilises forward currency exchange derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of a Group entity.

At 31 March 2010, the Group had no outstanding forward currency exchange contracts (2009: £5 million) that were designated and effective as cash flow hedges of committed forecast transactions.

A loss of £4 million was recycled from the cash flow hedge reserve to cost of sales in respect of contracts designated as cash flow hedges of the attributable currency risk on highly probable forecast transactions (2009: £nil). A gain of £1 million was recycled from the cash flow hedge reserve to non-current non-financial assets in respect of contracts designated as cash flow hedges of the attributable currency risk on a capital expenditure project (2009: gain of £1 million).

The Group has significant non-Sterling denominated currency net investments denominated in Euros and Swiss Francs. The Group uses derivative financial instruments, specifically cross currency swaps, forward currency exchange contracts and non-Sterling currency borrowings to hedge the non-Sterling currency risk.

The Group has a number of cross currency swap contracts in place. At 31 March 2010, the fair value of the Group's cross currency swaps was a liability of £176 million (2009: £168 million). £37 million (2009: £33 million) of the liability related to cross currency swaps designated as net investment hedges of non-Sterling denominated currency net investments. Movements in fair value have been deferred in equity. The remaining liability of £139 million (2009: £135 million) related to cross currency swaps designated as held for trading. The currency exchange risk associated with these swaps was hedged through the use of short dated forward currency exchange contracts designated as held for trading. At 31 March 2010 the fair value of these offsetting currency exchange contracts was £nil (2009: £4 million asset).

The effect of currency swaps and forward currency exchange contracts to manage translation risk on net borrowings was:

	2010		2009	
	Before hedging £million	**After hedging £million**	Before hedging £million	After hedging £million
Sterling	**(6,140)**	**(5,945)**	(6,501)	(6,342)
Euro	**(2,061)**	**(2,063)**	(2,255)	(2,271)
Swiss Franc	**(249)**	**(348)**	(284)	(352)
Other	**61**	**(33)**	6	(69)
Total net borrowings	**(8,389)**	**(8,389)**	(9,034)	(9,034)

At 31 March 2010 the total notional amount of outstanding forward exchange contracts that the Group has committed was £312 million (2009: £293 million).

At 31 March 2010 the statement of financial position carrying value of the Group's outstanding forward exchange contracts was a £1 million asset (2009: £4 million asset).

26. Financial risk management (continued)

Currency risk - sensitivity analysis

The table below shows the Group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments, excluding trade payables and trade receivables, which do not represent a significant exposure to exchange rates.

A 10% (2009: 10%) strengthening of Sterling against the following currencies would have increased/(decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant and that instruments designated as net investment hedges remain highly effective. In this table financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	2010		2009	
	Impact on equity £million	**Impact on profit £million**	Impact on equity £million	Impact on profit £million
Euro	**76**	**(1)**	89	1
Swiss Franc	**35**	**-**	35	1
Other	**2**	**1**	2	(2)

A 10% (2009: 10%) weakening of Sterling against these currencies at 31 March 2010 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The movements in equity relate to non-Sterling borrowings and cross currency swaps used to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing or cross currency swap would be matched by a corresponding depreciation in the value of the related Group asset, which would also be recorded in equity. Exchange rate sensitivities on Group assets other than financial instruments have not been shown in the table above.

Cash flow interest rate risk

The Board's policy is to protect its ability to service its debt obligations by ensuring that floating rate interest payments on not less than 50% of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc are hedged. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

The Group has a mixture of fixed and floating rate borrowings. Before the impact of derivative financial instruments, £109 million or 1.2% (2009: £420 million or 4%) of total borrowings were at fixed interest rates. The re-pricing risk of the fixed borrowings coincides with their maturity. The floating rate borrowings re-price within 6 months of the reporting date, based on short term borrowing rates for the relevant currency.

The Group had interest rate swaps with a notional principal of £500 million (2009: £500 million) and €12 million (2009: €10 million) respectively to swap £500 million and €12 million of outstanding borrowings from floating to fixed interest rates. The Group has interest rate caps with notional principal amounts of £3,500 million (2009: £3,500 million) and €1,623 million (2009: €1,638 million) respectively to protect the Group from rising interest rates on the corresponding amounts of borrowings. During the year ended 31 March 2010, the Group purchased interest rate caps with effective start dates in 2012 and notional principal amounts of £1,500 million and €2,000 million respectively.

After taking into account the impact of derivative financial instruments, £5,443 million or 61% (2009: £5,953 million or 62%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within six months of the year end.

At 31 March 2010, £5,438 million or 66% (2009: £5,488 million or 64%) of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc was hedged.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2010 on pre tax profit are shown in the table below. This analysis assumes that all other variables are held constant. On this basis there would have been no significant amounts recognised directly in equity.

	2010		2009	
	1% increase in interest rates £million	**1% decrease in interest rates £million**	1% increase in interest rates £million	1% decrease in interest rates £million
Gain/(loss) - derivative financial instruments	**63**	**(40)**	38	(25)
Gain/(loss) - variable rate financial instruments	**(84)**	**84**	(88)	88

Equity price risk

The Group is exposed to equity price risk through its long term holdings of listed and unlisted securities, which are classified as available-for-sale investments and held at fair value. The associated measurement volatility on these investments is recorded directly in equity, unless an equity instrument has suffered a significant and prolonged decline, in which case an impairment loss is recorded in profit or loss.

Equity price risk - sensitivity analysis

The potential impact on the Group's equity resulting from the application of +/- 5% movement in the fair value of its available-for-sale investments would have been a gain/(loss) recorded in the available-for-sale reserve of £4 million (2009: £2 million).

27. Analysis of movement in net borrowings

Set out below is a reconciliation of the net increase in cash and cash equivalents to the increase in net borrowings at 31 March 2010.

	2010 £million	2009 £million
Net (decrease)/increase in cash and cash equivalents	(144)	30
Increase/(decrease) in restricted cash	5	(161)
Cash and cash equivalents outflow from decrease in debt and debt financing	644	237
Movement in net borrowings resulting from cash flows	505	106
Discounts on repurchase of acquisition borrowings	128	106
Loan notes issued for non-cash consideration	-	(2)
Restricted cash acquired with businesses	-	126
Borrowings acquired with businesses	(1)	(72)
Finance leases entered into	(6)	(9)
Amortisation of prepaid financing fees	(30)	(46)
Capitalised finance costs	(19)	(27)
Currency translation differences and fair value adjustments on financial instruments	68	(470)
Movement in net borrowings in the year	645	(288)
Net borrowings at 1 April	(9,034)	(8,746)
Net borrowings at 31 March	(8,389)	(9,034)

Cash and cash equivalents outflow from decrease in debt and debt financing comprised of proceeds from borrowings of £39 million (2009: £125 million), less repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives of £666 million (2009: £342 million) and repayment of capital element of finance lease obligations of £17 million (2009: £20 million).

Set out below is an analysis of the movement in net borrowings during the year:

2010	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2009	473	343	(930)	(8,674)	(246)	(9,034)
Net decrease in cash and cash equivalents	(125)	-	(19)	-	-	(144)
Net increase in restricted cash	-	5	-	-	-	5
Cash and cash equivalents outflow from decrease in debt and debt financing	-	-	396	199	49	644
Discounts on repurchase of acquisition borrowings	-	-	-	128	-	128
Borrowings acquired with businesses	-	-	(1)	-	-	(1)
Finance leases entered into	-	-	(2)	(4)	-	(6)
Amortisation of prepaid financing fees	-	-	-	(30)	-	(30)
Capitalised finance costs	-	-	-	(19)	-	(19)
Non-cash movements	-	-	(9)	9	-	-
Currency translation differences and fair value adjustments on financial instruments	(5)	1	9	69	(6)	68
At 31 March 2010	343	349	(556)	(8,322)	(203)	(8,389)

27. Analysis of movement in net borrowings (continued)

2009	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2008	413	366	(733)	(8,585)	(207)	(8,746)
Net increase/(decrease) in cash and cash equivalents	48	-	(18)	-	-	30
Decrease in restricted cash	-	(161)	-	-	-	(161)
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and debt financing	-	-	243	(37)	31	237
Discounts on repurchase of acquisition borrowings	-	-	-	106	-	106
Loan notes issued for non-cash consideration	-	-	-	(2)	-	(2)
Restricted cash acquired with businesses	-	126	-	-	-	126
Borrowings acquired with businesses	-	-	(72)	-	-	(72)
Finance leases entered into	-	-	(2)	(7)	-	(9)
Amortisation of prepaid financing fees	-	-	-	(46)	-	(46)
Capitalised finance costs	-	-	-	(27)	-	(27)
Non-cash movements	-	-	(310)	310	-	-
Currency translation differences and fair value adjustments on financial instruments	12	12	(38)	(386)	(70)	(470)
At 31 March 2009	473	343	(930)	(8,674)	(246)	(9,034)

In the Group statement of cash flows, cash and cash equivalents included bank overdrafts classified as borrowings within current liabilities in the statement of financial position, which amounted to £271 million (2009: £263 million).

28. Movement in net borrowings resulting from acquisitions and disposals of businesses and investments

	2010 £million	2009 £million
Acquisition of businesses		
- cash	**(11)**	(138)
- loan notes issued for non-cash consideration	**-**	(2)
Net borrowings of businesses acquired		
- cash and cash equivalents net of overdrafts	**-**	25
- restricted cash	**-**	126
- borrowings	**(1)**	(72)
Disposal of businesses	**-**	1
Disposal of associates and pharmacies classified as held for sale	**18**	-
Purchase of minority interests	**(10)**	-
	(4)	(60)

29. Provisions

2010	Refurbishment and reorganisation £million	Vacant property £million	Other £million	Total £million
At 1 April 2009	96	17	10	123
Acquisitions	1	6	1	8
Provisions created during the year	6	12	5	23
Provisions utilised during the year	(52)	(5)	(3)	(60)
Provisions released during the year	(4)	(1)	(7)	(12)
Unwinding of discount on provisions	-	1	-	1
Currency translation differences	(2)	-	-	(2)
At 31 March 2010	45	30	6	81
Current	25	10	2	37
Non-current	20	20	4	44
	45	30	6	81

The non-current provisions are expected to be utilised within two years of the year end.

Refurbishment and reorganisation
The refurbishment and reorganisation provision relates primarily to the restructuring programme in the Pharmaceutical Wholesale Division and store refurbishments and supply chain reorganisation in the UK business within the Health & Beauty Division. In respect of the store refurbishment programme, estimates of expected costs have been based on a store-by-store survey and comprise management's view of lease obligations.

Vacant property
The vacant property provisions represent recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Other
The other provision relates mainly to long service award entitlements accrued on a probability-weighted basis and the provision for closure or termination of operations which related to restructuring of supply chain configuration in the UK business within the Health & Beauty Division.

30. Share capital

	2010		2009	
	Number of shares	£million	Number of shares	£million
Ordinary shares of CHF1,000:				
Authorised	2,098,000		2,098,000	
Allotted, called up and fully paid	2,098,000	1,065	2,098,000	1,065

31. Equity

Other reserves' movements within equity were:

2010	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Special reserve £million	Associates and joint ventures other comprehensive income £million	Total £million
At 1 April 2009	(3)	193	1	-	-	191
Net exchange differences on translation of non-Sterling denominated operations	-	36	-	-	-	36
Net fair value movements on cash flow hedging instruments	-	-	(4)	-	-	(4)
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	-	-	3	-	-	3
Net fair value gains on available-for-sale investments deferred in equity	30	-	-	-	-	30
Share of post tax other comprehensive income of associates and joint ventures	-	-	-	-	(10)	(10)
Future dividend obligations to minority interests	-	-	-	(30)	-	(30)
Transfer from minority interests	-	-	-	(4)	-	(4)
At 31 March 2010	**27**	**229**	**-**	**(34)**	**(10)**	**212**

2009	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Total £million
At 1 April 2008	(24)	99	1	76
Net exchange differences on translation of non-Sterling denominated operations	-	94	-	94
Net fair value movements on cash flow hedging instruments	-	-	1	1
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	-	-	(1)	(1)
Net fair value losses on available-for-sale investments deferred in equity	(18)	-	-	(18)
Cumulative net fair value losses recycled to the income statement on impairment	39	-	-	39
At 31 March 2009	(3)	193	1	191

The nature and purpose of each reserve in equity is:

Retained earnings
The Group's retained earnings reserve, which is presented in the Group's statement of changes in equity, comprises the Group's retained earnings, net of distributions made to equity holders, together with actuarial gains and losses on defined benefit schemes and related tax movements.

Available-for-sale reserve
The available-for-sale reserve comprises the cumulative net change in the fair value of the Group's available-for-sale investments. Net fair value movements are recycled to the income statement if an underlying available-for-sale investment is either derecognised or impaired.

Translation reserve
The translation reserve comprises all currency exchange differences arising from the translation of the financial statements of non-Sterling denominated operations into the presentation currency of the Group, as well as from the translation of financial liabilities that hedge the Company's net investment in non-Sterling denominated subsidiaries.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to the hedged risks on highly probable forecast transactions that have not yet occurred. When a forecast transaction occurs and the hedged risk is realised, an appropriate amount is recycled from the cash flow hedge reserve either to the income statement or to the carrying value of a non-current non-financial asset, according to where the underlying cash flow is recorded.

Special reserve
The special reserve comprises amounts recorded on the recognition and subsequent measurement of future dividend obligations to minority interests that exceed the equity held by minority interests.

Associates and joint ventures other comprehensive income
The associates other comprehensive income reserve records the Group's share of post tax other comprehensive income of associates and joint ventures.

32. Acquisitions and disposals of businesses

Acquisitions during the year ended 31 March 2010
The principal business acquisition during the year was Dollond & Aitchison on 5 May 2009 which was merged with Boots Opticians to form the second largest optical chain in the UK. The combined entity, which now trades as Boots Opticians, is being run as a stand-alone business within Alliance Boots. The acquisition was by way of a share-for-share exchange.

Details of the net assets acquired of Dollond & Aitchison at the date of acquisition, as adjusted from book to fair value, the purchase consideration transferred, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	5	18	23
Property, plant and equipment	12	6	18
Inventories	7	(1)	6
Trade and other receivables	5	-	5
Net borrowings	(1)	-	(1)
Trade and other payables, and provisions	(26)	-	(26)
Deferred tax liabilities	-	(11)	(11)
	2	12	14
Goodwill arising on acquisition - attributable to the equity holders			44
Minority interest in business acquired			(6)
			52
Satisfied by			
- shares			52

The acquisition of Dollond & Aitchison was satisfied through the transfer of shares in Boots Opticians to the vendor of Dollond & Aitchison which now holds a minority interest of 42% in the combined Boots Opticians business. As part of the consideration, pre-existing goodwill of £26 million has been derecognised and the net increase in goodwill in relation to the acquisition was £18 million.

The goodwill arising on the acquisition of this business represents the synergistic value in combining two large businesses in the market.

The Group has an ongoing future dividend obligation to the minority interest, which has been recorded against the minority interest in the combined Boots Opticians business and the special reserve.

In addition, the Group acquired a pharmacy in the year for cash consideration of £1 million comprising the fair value of the pharmacy licence. The Group recorded a further £10 million of cash consideration relating to acquisitions made in prior periods.

32. Acquisitions and disposals of businesses (continued)

Acquisitions during the year ended 31 March 2009

The principal businesses acquired during the year were Megapharm, a provider of specialised wholesaling and logistics services for oncology products, Depolabo, a provider of pharmaceutical pre-wholesale and contract logistics services, Central Homecare, a provider of home healthcare services, and 19 pharmacies.

These acquisitions are deemed to be individually immaterial and are therefore disclosed in aggregate. Details of the aggregate net assets acquired at the dates of acquisition, as adjusted from book to fair value, the purchase consideration transferred, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	2	71	73
Property, plant and equipment	7	6	13
Inventories	11	-	11
Trade and other receivables	183	-	183
Net cash	58	21	79
Trade and other payables, and provisions	(318)	(4)	(322)
Deferred tax assets/(liabilities)	2	(17)	(15)
	(55)	77	22
Minority interest in business acquired			(4)
Goodwill arising on acquisitions			112
			130
Satisfied by			
- cash			126
- loan notes			2
- costs incurred on acquisitions			2
			130

Net cash acquired comprised cash and cash equivalents of £25 million, restricted cash of £126 million less borrowings of £72 million.

The goodwill arising on the acquisition of these businesses represents the strategic value placed on the diversification of the Group's pharmaceutical wholesale service proposition.

In addition, the Group recorded a cash outflow of £10 million relating to acquisitions made in prior periods.

33. Operating leases

At 31 March 2010 outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due were:

	2010 £million	2009 £million
Less than one year	**312**	294
Between one and five years	**1,026**	974
More than five years	**1,309**	1,316
	2,647	2,584

The Group leases a number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to break the leases during the period and renew the leases at the end of the period. Lease rentals are increased at regular intervals to reflect market rentals. None of the leases include material contingent rentals. Rental income from sub-let properties was £18 million (2009: £14 million).

34. Commitments and contingent liabilities

Commitments
Capital expenditure contracted for at the year end but not yet incurred was £23 million (2009: £49 million) in respect of property, plant and equipment.

Contingent liabilities
The Group had aggregate contingent liabilities of £14 million (2009: £14 million), including a financial guarantee issued to a third party to underwrite £10 million of loan finance on asset disposals that occurred in a prior period.

35. Retirement benefit schemes

The Group operates a number of retirement benefit schemes in the UK and other countries including both defined benefit and defined contribution schemes.

Defined benefit schemes
The principal scheme is the Boots Pension Scheme. This scheme, which is closed to new members, has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years. The other large scheme is the Alliance UniChem UK Group Pension Scheme which is also closed to new members. Both schemes entered into Memoranda of Understanding during 2007/08 with the Group, the main elements of which were an agreement that conservative investment strategies would be maintained, and a commitment to pay additional contributions. The additional cash contributions comprised £102 million in 2007/08 with a further £366 million to be made over ten years from August 2008. £20 million was paid in 2009/10, with the same amount committed in each of the following three financial years.

In January 2010, the Group announced that it was entering into consultation with employees of its UK businesses about a proposal to introduce a new defined contribution pension scheme and to close its UK defined benefit schemes to future accrual for active members. Since the year end, following an extensive consultation process, the Group has announced that the new defined contribution scheme is to be implemented with effect from 1 July 2010 with a number of significant enhancements to that originally proposed. As a result, the existing schemes will close to future accrual from that date.

The net amount recognised in respect of defined benefit schemes was:

	2010 £million	2009 £million
Present value of defined benefit scheme liabilities	**(4,684)**	(3,354)
Less fair value of defined benefit scheme assets		
- bonds	**3,536**	3,054
- equities	**555**	373
- other plan assets	**131**	115
	4,222	3,542
	(462)	188
Analysed as		
- assets	**-**	216
- liabilities	**(462)**	(28)
	(462)	188

The change in the present value of defined benefit scheme liabilities was:

	2010 £million	2009 £million
At 1 April	**3,354**	3,584
Current service costs	**47**	52
Past service costs	**6**	2
Curtailment gains	**(8)**	-
Interest on defined benefit scheme liabilities	**225**	241
Net actuarial losses/(gains)	**1,224**	(408)
Employee contributions	**3**	11
Benefits paid	**(166)**	(138)
Currency translation differences	**(1)**	10
At 31 March	**4,684**	3,354

35. Retirement benefit schemes (continued)

Defined benefit schemes (continued)
The change in the fair value of defined benefit scheme assets was:

	2010 £million	2009 £million
At 1 April	**3,542**	3,881
Expected returns on defined benefit scheme assets	**207**	234
Experience adjustments	**530**	(560)
Employer contributions	**109**	107
Employee contributions	**3**	11
Benefits paid	**(166)**	(138)
Currency translation differences	**(3)**	7
At 31 March	**4,222**	3,542

The Group expects to contribute approximately £40 million, including £20 million of deficit funding, to its defined benefit schemes in the year ended 31 March 2011.

The expense recognised in the income statement was:

	2010 £million	2009 £million
Current service costs	**(47)**	(52)
Past service costs	**(6)**	(2)
Curtailment gains	**8**	-
	(45)	(54)
Expected returns on defined benefit scheme assets	**207**	234
Interest on defined benefit scheme liabilities	**(225)**	(241)
	(63)	(61)

The expense was recognised in the following line items in the income statement:

	2010 £million	2009 £million
Selling, distribution and store costs	**(35)**	(42)
Administrative costs	**(10)**	(12)
Finance income	**207**	234
Finance costs	**(225)**	(241)
	(63)	(61)

The amounts recognised in the statement of other comprehensive income were:

	2010 £million	2009 £million
Experience gains/(losses) on defined benefit scheme liabilities	**48**	(21)
Changes in assumptions underlying the present value of defined benefit scheme liabilities	**(1,272)**	429
Experience gains/(losses) on defined benefit scheme assets	**530**	(560)
	(694)	(152)

The cumulative amount of actuarial gains and losses recognised in the statement of other comprehensive income at 31 March 2010 was a net loss of £665 million (2009: £29 million gain).

Defined benefit schemes (continued)

The amounts recognised for the fair value of scheme assets, the present value of scheme liabilities and experience gains/(losses) on scheme assets and liabilities for the past three years ended 31 March, were:

	2010 £million	2009 £million	2008 £million
Present value of scheme liabilities	(4,684)	(3,354)	(3,584)
Fair value of scheme assets	4,222	3,542	3,881
Retirement benefit (deficit)/surplus	(462)	188	297
Experience gains/(losses) on scheme liabilities	48	(21)	3
Experience gains/(losses) on scheme assets	530	(560)	(47)

The principal actuarial assumptions at the year end were:

	2010		2009	
	UK	Non-UK	UK	Non-UK
Discount rate for defined benefit scheme liabilities	5.5%	4.6%	6.9%	5.9%
Inflation	3.6%	2.3%	2.9%	2.3%
Rate of general long term increase in salaries	4.6%	2.6%	4.4%	2.7%
Rate of increase to pensions in payment	3.5%	3.0%	2.9%	3.2%

The expected returns on defined benefit scheme assets for the following financial year are:

	2010 UK	2009 UK
Bonds	4.7%	5.7%
Equities	7.9%	7.9%
Property	7.7%	7.0%
Other	4.3%	3.7%

The expected return on non-UK defined benefit scheme assets ranged from 5.0% to 6.0% (2009: 5.0% to 6.4%). The expected rate of return on defined benefit scheme assets has been determined with reference to historic and projected market returns. The actual return on defined benefit scheme assets was a £737 million gain (2009: £326 million loss).

The mortality assumption used to value the majority of scheme liabilities was based on 2000 series tables, with scaling factors of 110% for males and 120% for females, allowing for medium cohort improvements. This has been adjusted to take account of the actual experience of schemes where this data is of sufficient size. The impact of medium cohort improvements has been included recognising the continued recent improvements in published mortality investigation data. The mortality assumptions will continue to be reviewed to ensure they remain appropriate.

The projected life expectancy from the age of 60 years was:

	2010		2009	
	Currently aged 45	Currently aged 60	Currently aged 45	Currently aged 60
Male	26.8	25.8	26.8	25.8
Female	28.6	27.7	28.6	27.7

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the year end is:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.25%	Decrease by £188 million
Rate of inflation	Increase by 0.25%	Increase by £183 million
Assumed life expectancy at age 60 (rate of mortality)	Increase by 1 year	Increase by £118 million

Defined contribution schemes

The Group operates a number of defined contribution schemes. During the year the Group contributed £18 million (2009: £17 million) into these schemes.

36. Related parties

Parent and ultimate controlling party

At 31 March 2010, AB Acquisitions Holdings Limited was the immediate and ultimate parent company of Alliance Boots GmbH.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and by certain funds advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina and O. Barra, who are Directors of Alliance Boots GmbH, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

Key management personnel

Key management personnel comprise the Directors of Alliance Boots GmbH and, in addition, W. Zettel through his directorship of AB Acquisitions Holdings Limited. The Directors of Alliance Boots GmbH are:

S. Pessina* (Executive Chairman)
A. Hornby* (Group Chief Executive - appointed 1 July 2009)
G.R. Fairweather*
M. Pagni*
O. Barra*
S.W.J. Duncan* (resigned 11 January 2010)
A. Gourlay*
D. Murphy
M. Caprioli
S. D'Angelo
N.C.E. Land
C. Britton
A. De Nunzio
E. Jornod

* executive Directors

Key management personnel remuneration

The remuneration of the key management personnel of the Group comprised:

	2010 £million	2009 £million
Short term employee benefits	**7**	4
Post-employment benefits	**1**	-

Other transactions with key management personnel

Together with other senior managers, executive Directors participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. To assist participation, the Group provides loans under commercial terms. £1.1 million of new loans were advanced during the year to key management personnel, and at 31 March 2010 the loan amounts outstanding in respect of key management personnel were £1.3 million (2009: £0.5 million). The loans are repayable in annual instalments over the period to June 2012. In addition, during the year a loan of £0.2 million was advanced to A. Hornby under commercial terms, which was repaid by 31 March 2010.

During the year, the £300 million Eurobond 2009 5.5% was repaid. S. Pessina's and A. De Nunzio's respective interests in the bond at redemption were £22 million and £3 million. The bond was originally issued by a subsidiary of Alliance Boots plc in May 1999.

During the year, S. Pessina received 317 shares in Galenica Ltd., an associate investment of the Group, in lieu of fees for his services as a director. At 31 March 2010, S. Pessina owned 814 shares in Galenica Ltd.. During the year, E. Jornod acquired 201 shares in Galenica Ltd. and at 31 March 2010 owned 10,919 shares and a conditional right to acquire 8,750 shares in 2012.

Key management personnel may purchase goods for personal and family use from the Health & Beauty Division businesses in the UK on the same terms and conditions as those available to all other UK employees of the Group.

Transactions with other related parties

As disclosed in the shareholder circular sent to the shareholders of Alliance Boots plc on 26 May 2007, Kohlberg Kravis Roberts & Co. L.P. and Alliance Santé Participations S.A. or their respective designees are each entitled to receive an annual monitoring fee. During the year, each party received £2.8 million (2009: £2.7 million), of which £0.7 million was outstanding to Alliance Santé Participations S.A. at 31 March 2010 (2009: £0.7 million outstanding to each party).

During the year, £1.6 million was paid to Capstone Europe Limited, an entity significantly influenced by Kohlberg Kravis Roberts & Co. L.P., for management consultancy services of which £1.0 million was expensed during the year, and £0.6 million was held as a prepayment at 31 March 2010.

The Group, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co. L.P.. All transactions are carried out on an arm's length basis.

During the year, the Group paid £0.2 million (2009: £0.1 million) for accounting services to an entity which is considered to be a related party by virtue of it being jointly controlled by a director of AB Acquisitions Holdings Limited. The transaction was on an arm's length basis.

During the year, the Group invested £36.4 million in a profit participating note issued by Walvis Limited, a company controlled by Dascoli Finance S.A.. S. Pessina is a director of Dascoli Finance S.A. which is owned by the same family trust that ultimately owns Alliance Santé Participations S.A.. Walvis Limited acquired £55.9 million of the principal of the Group's subordinated facility bank loan. During the year, £0.8 million of finance income was recorded in the income statement as receivable by the Group from Walvis Limited, of which £0.8 million was due at 31 March 2010. The profit participating note was outstanding at 31 March 2010 with a carrying value of £37 million.

At 31 March 2010, AF Lux Finance S.A. owned £30 million of the principal of the Group's senior facilities bank loans. S. Pessina is a director of AF Lux Finance S.A. which is owned by the same family trust that ultimately owns Alliance Santé Participations S.A.. During the year, £1.1 million of finance costs was recorded in the income statement as payable to AF Lux Finance S.A., of which £0.1 million was outstanding at 31 March 2010.

During the year, £1.4 million was advanced to AB Acquisitions Holdings Limited and £0.9 million to a fellow subsidiary of AB Acquisitions Holdings Limited under respective revolving credit facilities provided on arm's length bases. Both amounts were outstanding at 31 March 2010.

In the prior year, a fellow subsidiary of the Group's immediate parent company provided the Group with a five year fixed rate loan of £75 million. During the year, interest costs of £5.9 million were recorded in the income statement as payable by the Group to the fellow subsidiary, of which £5.9 million was outstanding at 31 March 2010. The loan is on an arm's length basis and repayable in 2014.

Subsidiary undertakings

The Group's principal subsidiary undertakings, all of which are indirectly held, were:

	Percentage held by subsidiary undertakings	Country of operation	Country of incorporation	Main activity
Health & Beauty Division				
Boots UK Limited	100	UK	England and Wales	Pharmacy-led health and beauty retailing
Boots Opticians Professional Services Limited	58	UK	England and Wales	Optical practices
Boots Norge A.S.	100	Norway	Norway	Pharmacy-led health and beauty retailing
Boots Retail (Ireland) Limited	100	Republic of Ireland	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	The Netherlands	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	Thailand	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division				
Alliance Healthcare France S.A.	99.8	France	France	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited	100	UK	England and Wales	Pharmaceutical wholesaling and distribution
Alliance Healthcare España S.A.	99.2	Spain	Spain	Pharmaceutical wholesaling and distribution
Alliance Healthcare Italia SpA	100	Italy	Italy	Pharmaceutical wholesaling and distribution
Alliance Healthcare B.V.	100	The Netherlands	The Netherlands	Pharmaceutical wholesaling and distribution
ZAO Apteka Holding	66	Russia	Russia	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	Czech Republic	Czech Republic	Pharmaceutical wholesaling and distribution
Megapharm GmbH Pharmazeutische Erzeugnisse	100	Germany	Germany	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge A.S.	100	Norway	Norway	Pharmaceutical wholesaling and distribution
Contract Manufacturing				
BCM Limited	100	UK	England and Wales	Contract manufacturing

In addition to the direct holding in ZAO Apteka Holding above, Hedef Alliance Holding A.S., an associate in which the Group has a 50% interest, has a direct interest of 30% in ZAO Apteka Holding.

36. Related parties (continued)

Associates and joint venture
The Group's principal associates and joint venture were:

	Percentage interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Associates				
Hedef Alliance Holding A.S.	50	Turkey	Turkey	Pharmaceutical wholesaling and distribution
Andreae Noris Zahn AG	29.99	Germany	Germany	Pharmaceutical wholesaling and distribution
Galenica Ltd.[1]	25.5	Switzerland	Switzerland	Pharmaceutical manufacturing, wholesaling and retailing
Alliance Healthcare S.A.	49	Portugal	Portugal	Pharmaceutical wholesaling and distribution
Joint venture				
Guangzhou Pharmaceuticals Corporation	50	China	China	Pharmaceutical wholesaling and distribution

[1] All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

The accounting reference dates of the associates and joint venture is 31 December with the exception of Andreae-Noris Zahn AG, which has a reference date of 31 August.

Transactions with associated undertakings and joint ventures, all of which are carried out on an arm's length basis were:

	2010 £million	2009 £million
Revenue in year	9	6
Purchases in year	(3)	(3)
Amounts due from	1	1

37. Accounting estimates and judgements

In preparing the Consolidated Financial Statements, the management of Alliance Boots GmbH is required to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows. The Group accounting policies are described in note 2.

Fair value measurement on a business combination
The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate.

Impairment of intangible assets, including goodwill, and tangible assets
Following the acquisition of Alliance Boots plc in 2007/08, the Group has significant carrying values of goodwill and intangible assets, such as pharmacy licences, brands and customer relationships. Goodwill and other indefinite life intangibles, such as pharmacy licences and certain brands are held at cost and tested annually for impairment. Amortised intangible and tangible assets are tested for impairment where there are indications of impairment. The impairment tests involve estimation of future cash flows and the selection of a suitable discount rates. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated (note 14).

Measurement of defined benefit scheme liabilities
The Group recognises and measures costs relating to defined benefit schemes in accordance with IAS 19, 'Employee Benefits'. In applying IAS 19, the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of significant judgements in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of suitable discount rates. Further detail is provided in note 35.

Revenue
In the Health & Beauty Division, reimbursement of dispensing revenue is initially estimated because the actual reimbursement is often not known until after the month of sale.

In respect of loyalty schemes, principally the Boots Advantage Card, liabilities are recorded to estimate the proportion of the points issued which will be redeemed by customers.

Supplier rebates
The recognition of supplier rebates may require estimation when the reporting period end is not coterminous with the end of the predetermined period over which the rebate is earned.

Provisions
Provisions are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, and therefore the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

38. Risk assessment

The Group's executive Directors play the leading role in internal controls, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what the Group considers to be acceptable levels of risk. These policies seek to enable people throughout the Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where risks are identified that are not acceptable, action plans are developed to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

Further detail on the risks faced by the Group and the internal control process are set out in the Annual Review.

39. Events after the year end

Except for the Group's announcement in relation to the closure of its UK defined benefit schemes to future accrual (note 35), there have been no material events subsequent to the year end.

Registered Office
Alliance Boots GmbH
Baarerstrasse 94
CH-6300 Zug
Switzerland

Contact
enquiries@allianceboots.com

Website
www.allianceboots.com